CHILDREN'S DEVELOPMENT ACCOUNTS:

A STATE POLICY SOURCEBOOK

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INTRODUCTION

"Children's savings accounts are consistent with U.S. political values and the imperative to develop the human capital of the nation's children as we begin the 21st century. Just as another asset-based policy, the GI Bill, promoted human capital development in the middle of the 20th century – with enormous payoffs in educational attainment, increased productivity and incomes, and widespread home ownership – a children's saving policy would democratize educational opportunity, spread the distribution of wealth, build stronger households and promote economic growth."

– Curley and Sherraden, 2000

We have learned from research and practice that possessing even a few thousand dollars in assets gives people a stronger economic foothold. Holding assets connects people to the economy, raises their economic expectations and allows them to shape their futures. If assets are important to adults, they are even more powerful earlier in life when aspirations, knowledge and savings behaviors are developing. There is an increasing body of academic research about the importance of saving in promoting educational attainment and breaking the cycle of poverty. Anecdotal evidence suggests that lack of hope is a factor in many of the poor choices made by young people. However, with nest eggs, all children can look toward a future in which they invest in themselves.

In 2003, five nationally respected partners – CFED, the Center for Social Development at Washington University in St. Louis, the Initiative on Financial Security at the Aspen Institute, the New America Foundation and the University of Kansas School of Social Welfare – embarked on a 10-year national policy, practice and research endeavor to develop, test, inform and promote matched savings accounts for children and youth accompanied by financial education. This endeavor, known as the Saving for Education, Entrepreneurship and Downpayment (SEED) Policy, Practice and Research Initiative, seeks to set the stage for universal, progressive American policy for asset-building among children, youth and families.

Ultimately, a national CDA policy may be preferable to many different state policies; however, as with other areas of policy development, state experimentation can set the stage for federal policy. In addition, devolution of responsibility for many social welfare programs means state policy has come to play a more important role in recent years.

Experience in SEED and in many states suggests that state- level policy should both create universal, lifelong, progressive opportunities for children to save for the future and remove barriers to saving in CDAs.

Terminology

Whether known as Children's Development Accounts (CDAs, the term we use in this guide), SEED accounts, or Children's Savings Accounts, CDAs are long-term asset-building accounts established for children at birth and allowed to grow over their lifetime. Accounts are typically seeded with an initial deposit of $500 to $1,000 and built by contributions from family, friends, and the children themselves. In addition, accounts are augmented by savings matches and other incentives. Use of the savings in CDAs is usually restricted to financing higher education, starting a small business, buying a home, or funding retirement. Accounts gain meaning as young accountholders and their families engage in age-appropriate financial education.

Purpose of this Guide

This guide is a toolkit for anyone interested in developing state CDA policy. Our hope is that this guide will assist those who want to:

- Propose or further develop state CDA legislative initiatives;
- Encourage state agencies or entities to develop and fund CDA programs;
- Remove barriers to saving, such as asset and income limits in public benefit programs; and/ or
- Simply learn more about the process of CDA policy development.

This guide may be used to learn about or further consider policy and program options and assess what other states have accomplished or proposed in these areas. Information about federal CDA legislative efforts is also included. In this guide, we have condensed a considerable amount of knowledge in the CDA policy arena and hope to facilitate sharing of the lessons to date.

There is no one formula for success in achieving state policy support for CDAs. This guide includes some promising options for doing so; however, as you will see in the pages that follow, the final decisions about strategy in any particular state will ultimately rest upon the political, cultural and fiscal considerations in that state. Moreover, there may be more than one route that leads to success.

The CDA and asset-building fields are constantly changing and evolving. The information contained in this guide is current as of September 2009; for the most up-to-date details on the field, please visit www.cfed.org.

Audience

This guide will be helpful for those involved in state policy, such as governors, legislators and legislative aides, as well as Individual Development Account (IDA) and/or CDA program operators, advocates, IDA/CDA coalition members, social service organizations, funders, lobbyists and others. It was designed with the hope of providing the best available and most current information, including suggestions for legislative/regulatory tactics, CDA successes to date, innovative practices and current children's savings policy trends.

BACKGROUND AND BASICS

SEED brought together national, state and community partners to design, implement and document specific aspects of children's savings programs. From 2003-2008, 12 community partners established more than 1,400 accounts and engaged different age cohorts, savings incentives, financial education approaches and financial institutions. One additional demonstration and impact assessment partner worked with 500 accounts and controls from Head Start programs in Michigan. SEED also features six state policy partners, who continue to work to establish universal, progressive CDA policy in their respective states. (For a list of SEED state policy partners, see Appendix A).

The SEED Account Monitoring Research studied 10 of SEED's 12 community sites and reported that 1,171 savers at those sites accumulated $1.8 million in total.[1] This equates to an average individual accumulation of $1,518 over a period that spanned between two and four years, varying per site. The potential impact of the accumulated savings is significant, considering the income characteristics of part icipating families: more than 50% had gross incomes less than the poverty threshold, and an additional 34% had gross incomes between 100% and 200% of the threshold. Moreover, the implications go deeper than the savings children accumulated in their CDAs. Early research has shown that children in SEED experienced increased feelings of financial security and future orientation; this, in turn, positively impacted their aspirations and academic motivation.[2]

In Oklahoma, the SEED for Oklahoma Kids Experiment (SEED OK) is testing the policy idea of universal and progressive accounts at birth. SEED OK research, which is led by the Center for Social Development at Washington University in St. Louis (CSD), is multi-method and rigorous, consisting of a longitudinal experiment with random assignment of SEED OK treatment and control participants, account monitoring, and in-depth interviews. Through SEED OK, CSD is aiming to understand: how much families save for their children's education; the impacts of SEED OK on parents' expectations and behavior; and how much difference SEED OK will make in a child's development and educational achievement.[3]

Why Are CDAs Important?

- More than a third of the 4 million American children born each year – and more than 40% of minority children – are born into families with negligible savings to weather emergencies or invest in their futures.[4] Yet 81%of poor American children live in families where someone works full- or part-time.[5]
- $1,000 invested for 18 years at a 6% rate of return yields nearly $3,000. Add $100 per year, and the sum jumps to more than $5,000. Contribute $50 per month to the base and the total reaches more than $22,000.
- People with bachelor's degrees earn more than 80% more, on average, than those with only high school diplomas. Typical costs to attend a two-year public college are about $2,400 per year; four-year public college expenses are estimated to be just under $6,600 annually.[6] Poor and low-income children are eligible for grant aid and tax subsidies that significantly reduce the net cost of a college education. However, two in five American children will never complete a single year of college.
- While college is a significant investment for most American families, many poor and low-income households – again, eligible for the most grant aid and tax credits – grossly overestimate the cost of college education. In SEED, many parents believed college costs to be double what they actually are.

As a nation, we invest comparatively little in children. Only 1% of every new nondefense dollar is spent on programs that support children.[7] In addition, between 2004 and 2007, discretionary spending on social initiatives grew 8%, yet discretionary spending for children's programs was cut by 6%.[8] This decrease in spending on childhood initiatives comes at a time when there are powerful social, economic, political and financial reasons to believe that a policy of providing all children with an initial endowment at birth might hold even greater promise than asset-building accounts for adults that have already demonstrated great success. At minimum, such a policy would increase the savings rate, ensure a greater level of investment in children and increase the economic and social prospects for each succeeding generation. In addition, with the power of compound interest, a universal children's savings policy offers the prospect that modest investments early in life will lead to substantial lifetime returns. Furthermore, universal children's accounts have the potential to develop a large, potentially profitable market for financial institutions.

The United States has a strong record of helping its citizens to build assets. Currently, federal and state governments invest hundreds of billions of dollars annually to help Americans buy and maintain homes, save for college or put aside money for retirement. However, these incentives largely benefit middle- and upper-income households. In FY2010, the United States will spend approximately $422 billion to encourage individuals to accumulate assets. Yet $363 billion, or 86%, is directed to middle- and upper-income populations via tax subsidies. Expanding the United States' asset-building policy to support a basic economic foundation for all, beginning at birth, could expand ownership, ensure greater and more accessible opportunity, and get families started on financially planning for the future of their children.

Why Should States Play a Role in Children's Savings Policy?

States play an important role in the development of universal children's savings policy for several reasons. First, like federal policy, state policies influence wealth building. In addition, states can serve as laboratories of democracy, testing and advancing progressive policies. Finally, given the historical devolution of authority from the federal to state governments, states have significant responsibility for social policy.

Why Should Savings Policy Focus on Children?

The American Dream Demonstration (ADD) and the resulting emergence of IDA programs in hundreds of communities across the country have shown that assets matter – that savings and matches can increase skills, employment, asset acquisition, expectations and initiative; that families, even very poor families, will save and use their matched savings to move forward economically; and that asset policies are politically popular, potent and have the potential for large-scale adoption.[9]

Assets are even more influential during the formative stage of childhood. Yet of the 4 million children born each year in the United States, one-third (and more than 40% of African- American children) are born into families who are "asset poor" – meaning they cannot survive at the federal poverty level for more than three months if their source of income is interrupted.[10] Many other children – though born into relative financial security – will not grow up having or contributing to assets of their own or developing the financial or economic expectations, values and skills that result from having assets.

From a financial product point of view, CDAs are likely to be much more profitable than IDAs, particularly if they are provided to all children regardless of income, seeded with an initial large deposit and allowed to grow with few withdrawals over a longer period of time. And like IDAs – and especially because children are particularly compelling beneficiaries – the bipartisan political support can be strong.

Basic Elements of CDA Policy

Whether implementation of CDAs is achieved through state or federal policy, it is essential that it take into account the lessons from emerging practice and research and include input from a wide range of stakeholders to respond to economic, social, political, financial and technological concerns.

The SEED Policy Council is a diverse body of policy and children's account experts, CDA pioneers, key constituencies, SEED partners and funders (a complete list of SEED Policy Council members is located in Appendix B). The council has identified core values, based in part on the lessons learned from SEED, which they consider foundational for any CDA policy. Additionally, the details of early legislative CDA proposals from the United States and abroad serve to support these essential, basic criteria:

- ***Universal:*** Accounts should be established at birth for every child in America and should create a permanent infrastructure for saving for all.
- ***Lifelong:*** Accounts should serve not only as an important connection to the mainstream economy, but also as an essential savings and investment account throughout one's lifetime.
- ***Progressive:*** Voluntary additional contributions from any public or private source (e.g., family, friends, relatives, community organizations and parents' employers) should be incented by a public match that increases in value for lower- income families.
- ***Asset building:*** Savings should be restricted until at least age 18 and should be used only for higher education/training, small business start-up, home purchase, or retirement.

Additional key policy design features for a comprehensive CDA policy include the following:

- ***Automatic:*** Automatic enrollment and account creation is essential to universality. Direct or automatic deposits would also increase participation in CDAs.
- ***Opened with an initial deposit:*** Every newborn should receive a modest but significant deposit ($500 at minimum).
- ***Simple:*** Parameters of the account should be kept simple to enable low-cost and large-scale delivery (e.g., simple match rates, limited investment choices, tax incentives, deposit structure and integration into tax forms). Specifically, annual fees for participation in the CDA should be limited to one percent or less.
- ***"Higher-touch" elements:*** Even for policies that include automatic enrollment and are product-driven, programmatic touches can serve to ensure that families with less experience in the financial realm will not be neglected.
- ***High match limit:*** Particularly if the goal of a CDA program is participant savings, increasing the amount of savings that can be matched is an effective design feature.
- ***"New" money:*** Especially for families of lower income, policy design should consider ways to help them find innovative ways to make deposits to their CDAs. Ideas include conditional cash transfers, tax credits and earning opportunities.
- ***Reasonable expectations:*** Not all families will save and those that do may not always save large amounts. This is especially true in universal settings and for lower-income families.
- ***Private-market oriented:*** Accounts should be held primarily in private financial institutions that provide secure, limited and low-risk investment options but also include features that ensure affordable costs and ease of use.
- ***Designed to build financial aspirations, knowledge and skills:*** The benefits of financial education, and the appropriate method with which it should be delivered, have been well debated. Age-appropriate financial education should be provided to children and their families, and may be delivered by a variety of sources (e.g., financial institutions, nonprofit organizations, youth development organizations and/or schools).
- ***Non-discriminatory to families on welfare:*** Eligibility for means-tested programs – such as the Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps), Temporary Assistance for Needy Families and Medicaid – should not be affected by savings in CDAs.

THE POLICY CONTEXT FOR CDAs: FEDERAL AND INTERNATIONAL

Current state and federal public policies reinforce asset inequality in the United States. Changing policies related to assets has the potential to increase equality. Nationwide implementation of progressive and inclusive CDAs would move the United States closer to a universal, lifelong and progressive asset-building system for all Americans. CDAs can increase the savings rate, ensure a greater level of investment in children, improve the economic and social prospects for each succeeding generation and increase the economic and social welfare of the nation as a whole. In no small sense, CDAs are an investment in the future of the economy.

Since the 1990s, there have been an increasing number of federal and state legislative proposals from both sides of the aisle to establish children's accounts. Before turning to the context in which state policy operates, we review the federal and international policy context. Federal policy is relevant to state-level CDA policy because it sets standards and defines eligibility for many social service programs, and could potentially provide significant resources for CDA programs.

The Federal Policy Context for CDAs

Several congressional bills have proposed children's savings initiatives with goals similar to those of SEED. These federal policy proposals have taken various forms – from support for saving policy aimed at a broad range of uses to proposals targeted at specific savings for education or retirement. We describe these proposals in the following sections.

Enacted Legislation

Federal 529 legislation. 529 college savings plans, or "qualified tuition plans," are tax-advantaged savings plans designed to encourage families to save toward their children's future college expenses. 529 plans are sponsored by states, state agencies or educational institutions, and are authorized by Section 529 of the Internal Revenue Code. There are two types of 529 plans: prepaid tuition plans and college savings plans. Additionally, some private colleges and universities sponsor prepaid tuition plans.

In 1996, Senators Bob Graham (D-FL) and Mitch McConnell (R-KY) led a bipartisan effort to provide federal tax relief for state college savings plans, resulting in the creation of Section 529 of the Internal Revenue Code. Section 529 allowed for tax-deferred treatment on earnings when used for higher education and spurred the development of college-savings plans across the country (from 1996 to 2000, 30 states developed and launched 529 plans); as of September 2009, every state including the District of Columbia offers a state-based plan.[11] On June 7, 2001, the Economic Growth and Tax Relief Reconciliation Act was enacted, which provided further congressional support by exempting 529 earnings from federal taxation. While many of the tax benefits of 529 plans were set to expire on December 31, 2010, the Pension Protection Act of 2006 eliminated this sunset provision and made the tax benefits a permanent feature of 529 plans.

Each plan offers different tax advantages, investment options, restrictions and fees. Some states also provide matching grants or tax credits for low-income investors (discussed in the following sections).

Coverdell Education Savings Accounts (ESAs). Coverdell ESAs (formerly known as Education IRAs) are structured like traditional IRAs, but with the express purpose of accumulating funds for higher education.[12] Between 1997 and 2001, deposits into Education IRAs were not tax deductible and were limited to $500 per year. In 2001, as part of the Economic Growth and Reconciliation Act, Education IRAs were renamed Coverdell ESAs and the deposit limit was raised to $2,000 per year (it is now $5,000 for those age 49 and under). A progressive structure was also introduced that phased out eligibility for high-income contributors, helping to ensure that Coverdell ESAs are serving low- and middle-income households. Coverdell ESAs also qualify for the Savers Credit, a federal tax credit to low-income savers who make deposits.[13]

Proposed Federal Legislation

The ASPIRE Act. The American Savings for Personal Investment, Retirement and Education Act (ASPIRE) has been introduced in each Congress since 2004, and currently awaits reintroduction in the 111th Congress.[14] ASPIRE is designed to encourage savings, promote financial literacy, and expand economic opportunity by creating a Kids Investment and Development Savings (KIDS) Account for every child born in the United States. The ASPIRE Act proposal was developed with assistance from the New America Foundation and has generated bipartisan support in both houses of Congress. (See Appendix C).

The ASPIRE Act includes a number of central principles of strong children's savings policy. It would provide a KIDS Account with a $500 initial savings deposit for every child with a Social Security number born after December 31 in the year in which ASPIRE is enacted. For children whose families earn less than the median income, these accounts would be supplemented with an additional $500, on a pro-rated basis based on income. Private contributions would also receive dollar-for-dollar matches up to $500, and eligibility for the match would be on a pro-rated basis based on income. Savings in a KIDS Account would grow until the child reached the age of 18, at which time he or she could make tax-free withdrawals for postsecondary education, a first home or a retirement savings account (rules similar to withdrawals from Roth IRAs). A KIDS Account Fund would be established in the U.S. Department of the Treasury and governed by a board of directors, similar in structure to the Thrift Savings Plan (the retirement program for federal employees). Once a child reaches age 18, he or she will have a choice of whether to keep savings at Treasury or transfer the account to a financial service provider of Roth IRAs or 529 plans.

Private, voluntary contributions can be made to an account each year until the accountholder reaches the age of 18. These contributions are capped at $2,000. Contributions are after-tax and can come from any source. After accountholders turn 18, contributions will be allowed according to Roth IRA rules.

Child Accounts Act of 2009. On June 19, 2009, Sen. Blanche Lincoln (D-AR) announced her intent to introduce this bill, which would establish a savings account for every child born in the United States. The forthcoming proposal is similar to ASPIRE in that it provides a $500 initial deposit to all American children and includes progressive matching funds. Additionally, tax-free contributions are allowed up to a $2,000 cap. However, Lincoln's proposal differs from ASPIRE (and resembles the U.K.'s Child Trust Fund program) in that, upon reaching age 18, children are allowed to use the funds for any purpose – the use is not restricted to education, home purchase or retirement.[15]

Young Savers Accounts. Young Savers Accounts (YSAs) – Roth IRAs specifically for children – would allow parents to direct contributions to Roth IRA accounts for their children. Current law has no age restriction on owning a Roth IRA, but children must have earned income in order to contribute; as a result, very few children may open these accounts. When the child reached age 18, YSAs would permit penalty-free withdrawals for first-home purchase, higher education and retirement. Contributions to the child's YSA would count toward the parent's annual limit (now $4,000 for those 49 and under, increasing to $5,000 in 2008), and would qualify for the Savers Credit, a federal tax credit to low-income savers who make deposits.[16] YSAs were introduced by Sen. Max Baucus (D-MT) in March 2006 as part of the Savings Competitiveness Act of 2006 (S. 2431). A similar provision was introduced in the House in July 2005 by Rep. Connie Mack (R-FL) as part of the Lifetime Prosperity Act (H.R. 3574). Both proposals died in committee.

401Kids Family Savings Act of 2006. In May 2006, Rep. Clay Shaw (R-FL) introduced the 401Kids Family Savings Act (H.R. 5314), which would amend the Economic Growth and Tax Relief Reconciliation Act of 2001 to rename Coverdell ESAs as

"401Kids" accounts and to expand uses to allow for tax-free withdrawals toward first home purchase or rollover into a Roth IRA. Like Coverdell ESAs, 401Kids accounts would be restricted, tax-advantaged savings accounts that would allow for up to $2,000 of after-tax contributions per year and could be used toward primary, secondary and postsecondary education. The bill would have also extended federal tax incentives for 529 college savings plans through 2015. This proposal died in committee.

PLUS Accounts. As proposed by Sen. Jeff Sessions (R-AL), every U.S. citizen born after December 31, 2007 would have a PLUS Account automatically opened in their names by the federal government and endowed with a one-time $1,000 contribution. Individual PLUS accounts would be established for all working U.S. citizens under age 65. One percent of each worker's pre-tax paycheck would be withheld and automatically deposited into his or her PLUS account (workers could voluntarily contribute up to 10%). Employers would also be required to contribute at least 1% (and up to 10%) of earnings. No withdrawals from PLUS accounts could be made until the accountholder reached the age of 65, although there would be a loan program for pre-retirement uses. This proposal died in committee.

International CDA Policies

Although the concept of universal, progressive children's savings policy is relatively new, a number of countries have proposed or enacted public policies that embody our vision in whole or in part, and provide a model for the children's savings movement. Three countries have already established universal children's savings initiatives: Great Britain, Singapore and Canada.

Great Britain: Child Trust Fund. The Child Trust Fund is based on the principle of progressive universalism, wherein every baby receives an endowment, but those born into lower-income families receive a larger lump sum. Each child born in Britain since September 2002 receives £250 (approximately $405); low-income children receive £500 (approximately $810).[17] Additional contributions from the government are made at age 7. At that time, all children receive another £250 and children from low-income families receive an additional £250, or £500 total. Parents and others can make deposits up to £1,200 (approximately $1,950) per year. Deposits and interest earned on savings in a Child Trust Fund are tax-free. Once an accountholder reaches 18 years of age, he or she has access to the proceeds in the account and there are no restrictions on how the funds can be used.

Initial evaluations of Great Britain's efforts have been positive.[18] For example, 75% of accounts have been opened by parents (instead of automatically by the government, which occurs in the absence of parental engagement), and 30% of families have made deposits in addition to the initial endowment. The average saved by those that utilize direct deposit is £40 per month (£480 yearly, or about $780).[19] Worth particular note is the engagement of low-income families with the accounts: they save, on average, £16 per month (£192 yearly, or about $312).[20]

Singapore: Baby Bonus and Child Development Accounts.[21] The Baby Bonus program, first introduced in April 2001, benefits children born into Singaporean families. Parents receive a cash gift of S$3,000 (approximately $2,070 in U.S. dollars) for the first child, a cash gift and matched deposits totaling up to S$9,000 (about $6,210) for the second child and up to S$18,000 (about $12,420) each for the third and fourth children. Baby Bonus gifts and matching contributions are based on the number of children in a family:

The Singaporean Government will also match dollar-for-dollar the amount of savings that parents contribute to the child's CDA. The CDA is a special savings account that the parent opens after registering for the Baby Bonus program. Parents are eligible for a CDA after the birth of their first child and can save in the CDA until the day before the child's sixth birthday. The CDA is eligible for a maximum government matching contribution of S$6,000 for the second child and S$12,000 each for the third and fourth child.

Birth order	Cash gift from government	Maximum matching government contribution	Total
First child	S$4,000	S$6,000	S$10,000
Second child	S$4,000	S$6,000	S$10,000
Third child	S$6,000	S$12,000	S$18,000
Fourth child	S$6,000	S$12,000	S$18,000

The savings in the CDA may be used to pay fees at child care centers, registered kindergartens, special education schools and registered early intervention programs. Parents may also use savings in the CDA to purchase Medishield[22] or Medishield-equivalent health insurance for their children, as well as any medical-related expense, such as prescriptions.

Canada: Learning Bond and Education Savings Grant. The Canada Education Savings Act, enacted on December 15, 2004, created the Canada Learning Bond (CLB) and enhancements to the Canada Education Savings Grant (CESG), designed to help low- and middle-income families save for their children's education.

One primary purpose of the legislation is to encourage families to set up a Registered Education Savings Plan (RESP).[23] To supplement income, low-income Canadian families with children receive a National Child Benefit (NCB). Receipt of this supplement qualifies children born on or after January 1, 2004 to a CLB, which provides an initial $500 deposit in a child's RESP, and $100 yearly deposits for the next 15 years, as long as a family's income still qualifies them to receive the NCB. Thus, a child in a low-income family could receive CLB payments totaling up to $2,000. Children who are not eligible for the CLB at birth, but become entitled to the NCB supplement in a subsequent year, will qualify for the CLB at that time. For FY 2009, families with incomes below $40,726 qualify for the NCB supplement, and thus the CLB.[24]

At the time the legislation was approved, it was estimated that the CLB would benefit more than 120,000 newborns annually, at a cost of $85 million. However, in its short history, the participation rate of the program has been lower than expected: as of December 2007, 11.8% of eligible families took advantage of the benefit, translating to 48,000 households.[25] This 2007 figure represents a sharp increase from the participation rate in 2006, when only 5.8% of eligible families received the CLB.[26] To address these issues of low awareness and insufficient outreach, the Canadian government increased their marketing efforts in 2007.[27] In addition, the maximum lifetime contribution amount for RESPs was increased that year to $50,000 (from $42,000) and the annual cap on contributions, previously set at $4,000, was lifted.[28] The promotional efforts have been viewed as initially successful: in FY 2008, $35 million in CLB payments were made, compared to payouts of $25 million in FY 2007.[29]

The Canada Education Savings Act also doubled the CESG from 20% to 40% on the first $500 of RESP contributions each year for families with net incomes of $35,000 or less. The Act also increased the CESG from 20% to 30% on the first $500 of RESP contributions per year for families with qualifying net incomes greater than $35,000 but not exceeding $70,000. While the Canada Learning Bond benefits children born on or after January 1, 2004, all eligible children in low- and middle-income families stand to benefit from the improved CESG match rates. In FY2008, the Canadian government made approximately $588 million in CESG payments, an increase from $540 million paid the previous year.[30] As of December 31, 2008, the Canadian government estimates that it has reached 37% of all eligible families with the CLB and/or CESG.

THE STATE POLICY CONTEXT FOR CDAs

The development of children's savings policy at the state level continues to emerge as an area of policy innovation. In the last several years, a growing number of states have passed or introduced proposals that explicitly call for children's savings policy or that include all or many of the basic elements of such policy. States have the ability to uniquely and innovatively impact the development of universal children's savings policy for a number of reasons.

State policy also influences wealth building. Though they play a smaller role than the federal government, states have enacted policies that help households build wealth. These include programs to promote homeownership or make homeownership affordable (e.g., low- interest loans, downpayment assistance and homestead exemptions); programs to promote the growth and development of small businesses (e.g., technical assistance and low-interest loans); and programs that encourage higher education (e.g., scholarships and student loans).

States can serve as "laboratories for democracy." The argument that states serve as "laboratories of democracy" is both common and intuitively appealing. In describing our federalist system, former Supreme Court Justice Louis Brandeis wrote, "To stay experimentation in things social and economic is a grave responsibility. Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory and try novel social and economic experiments without risk to the rest of the country."[31] This formulation of the concept of states as laboratories of democracy, written in 1932, still resonates today. Varied state strategies continually test and winnow policy alternatives, providing the nation with information about what works and what does not work.[32]

Devolution means states now have more responsibility for social policy. In the early 1980s, the Reagan administration began a trend of scaling back the federal government and providing funding, power and responsibility to the states. The Obama administration has reasserted the role of federal government, but states continue to hold responsibility for a range of social policy issues, such as health care, income security, job training and social services. Asset-building policy should be an important part of this effort, as it provides an essential complement to more traditional initiatives that help low- income households via income-maintenance programs.

State Policy Precedents

While no state has yet implemented a universal system of progressive savings accounts for children, there is solid state precedent on which to build. A number of states have taken some action to promote and incentivize savings for children and families. Among the most significant of those efforts are:

Pioneering children's savings policy in Oregon. This first instance of state-based children's savings policy occurred in 1991. The Oregon legislature passed a bill that authorized the establishment of an Individual Child Development Accounts Trust Fund and called for accounts to provide support for children to invest in long-term assets such as education, job training and homeownership. The legislation enjoyed bipartisan support from lawmakers and was backed by social service, education, housing and child advocacy organizations. However, the funding needed to implement the law was never authorized.

State 529 policies as models or precedents for children's savings policy. 529 accounts are state-administered college savings accounts, named after the relevant section of the Internal Revenue Code, that are designed to allow individuals to make after-tax deposits for future postsecondary education expenses. Each state is responsible for designing its own 529 plan, but every plan includes the following features: public sector oversight that allows incentives and coordination with other policy efforts; centralized accounting functions; a limited number of investment options; and the ability to cross subsidize between large and small accounts.[33]

The potential drawbacks of 529 plans include costs (some state plans have higher fees than others), impact on certain public assistance programs and penalties on account earnings for non-qualified uses of funds.[34] Even with these potential drawbacks, CFED and others recommend 529 college savings plans as one platform for building assets.

Each state offers its own 529 plan, whether as a prepaid tuition plan, a college savings plan or both, through a designated investment manager. States have the flexibility to design many features of the plan, including whether to offer incentives to lower-income residents – or all residents – to encourage their participation. These incentives can take the form of a match on individuals' deposits to their 529 accounts or a tax credit that reimburses accountholders for the deposits they have made.

In addition, states can automatically open accounts for all newborns; ensure that saving in the accounts is easy and incurs minimal costs to families; seed the accounts with initial deposits; and provide benchmark deposits when savers reach particular milestones. States can also track and publicly report 529 account ownership by income as a means of gauging the participation levels of lower-income families in college savings programs. States can make these policy decisions either through regulation or legislation.

Twelve states currently incentivize deposits into 529 college savings plans for some or all children: Arkansas, Colorado, Indiana, Kansas, Louisiana, Maine, Michigan, Minnesota, North Dakota, Rhode Island, Utah and Vermont.[35] The details of each state's policy vary and, therefore, provide different incentives for low- and moderate-income families to participate. Two states – Kentucky and Oklahoma – have established task forces or legislative study commissions to explore incentives for college savings as an incremental step toward establishing matched 529 policies. Further detail on each state's 529 plan is provided in Appendix H.

Other approaches. States have also formally proposed and/or implemented a number of other policy initiatives, including:

- Establishing statewide CDAs for all children with initial deposits and progressive match rates. California, Hawaii and Mississippi have all put forth legislative proposals calling for such a program.
- Forming public/private partnerships, such as the Alfond College Challenge in Maine. While private money is funding the effort, the state of Maine is responsible for its implementation.
- Tying initial deposit into accounts to public service requirements, as the Kentucky Cradle to College Commission has proposed.
- Allowing employers to receive a tax credit for deposits into accounts (in addition to initial deposits and progressive matches), as a similar commission in Oklahoma is considering.
- Enabling municipal experimentation, as is under way in San Francisco. The city has proposed to endow an account for each child entering public kindergarten with $50.

STATE-LEVEL STRATEGIES FOR PROMOTING CDAs

Any effort to promote universal, progressive CDAs at the state level will involve several primary tasks:

- Identifying or creating an appropriate savings structure for a children's savings initiative;
- Securing a dedicated funding source; and
- Removing barriers to saving and asset accumulation for low-income families.

As an incremental step, states may also seek to create government-sponsored task forces or study commissions whose mandate is to consider the potential of CDAs and to make recommendations to the administration and/or legislature.

Creating new savings incentives and removing barriers are essential to comprehensive children's savings policy. However, advocates, legislators and their allies must assess the particular circumstances in their state, including the resources available, possible champions, political climate, opportunities for linking to related policy initiatives, timing, and other factors in determining which strategy will most likely lead to positive outcomes and when to pursue that particular strategy.

In addition, those interested in designing and proposing state-level children's savings policy should take into account the experience of advocates and policymakers in other states; lessons from states that have acted to make 529 accounts more inclusive; and lessons learned from the states that are pursuing progressive, universal CDAs as part of SEED.[36] These integral lessons include:[37,38]

CDA legislation will frequently compete for scarce state resources. The economic downturn that began in 2007-2008 resulted in large deficits at both the federal and state levels, and most states are struggling to balance their budgets. This has resulted in cuts to anti-poverty programs, and more attention paid to basic safety net programs. Asset-building programs, especially those seen as having large price tags, are perceived as luxuries that can be deferred to better budget years. The tight fiscal environment may make bold policy initiatives such as universal CDAs seem untenable for state governments.

Despite tight budgets, opportunities remain. The right strategy can help advocates make an effective case that the time is right for a significant investment in the financial security of their state's youth. For instance, advocates may wish to include CDAs in a broader assets agenda, and band together with other allies that support the needs of low-income families. These allies might come from the health or public welfare fields, or from other asset-building programs such as affordable housing, IDAs or microenterprise.

Advocates might also opt to use federal policy developments to leverage interest at the state level. For instance, advocates can use the availability of an expanded federal tax credit for post-secondary education to focus state legislators' attention on the issue of helping families pay for college.

Present CDAs as a solution to a problem that policymakers need to solve. This will help position CDAs as relevant to challenges that states are already facing. For instance, if higher education costs are negatively affecting a state's college graduation rates, advocates could pitch CDAs as a means of helping students make college more affordable.

If state fiscal circumstances are not ideal, "buy time" until they improve. Keeping the idea of CDA legislation on the radar of state legislators and other influential thought leaders will make it easier to promote legislation when tight budgets begin to ease.

Start inexpensively and/or move incrementally. If imminent wins seem unlikely, advocates can maintain legislators' focus on the long-term benefits and utilities of asset-building programs and continue to build support for the concept of CDAs by pursuing incremental changes. States might use one of several strategies for this approach, including:

- Launching a small state-funded pilot to create a solid track record. If the pilot is successful, advocates will have leverage to go back to the legislature and request additional funding to take the pilot to scale.
- Using a multi-stage process that authorizes the CDA program, but does not appropriate funds until a later time.
- Creating a universal but inexpensive system of minimally funded accounts, with the goal of increasing incentives later on.

Use proven, effective messages. Experiences and research from SEED have also served to fine-tune the messages that advocates should consider using to promote CDAs to legislators and constituents. To this end, CFED commissioned Peter D. Hart Research Associates to conduct a national survey with a large sample of registered voters, including a sample of parents with young children. By studying public opinion toward CDAs, CFED hoped to gain an understanding of how the need and rationale for CDAs was perceived, opinions about how the accounts should be structured and used, and reaction to various messaging strategies. This last element, in particular, helped SEED and its partners to identify those messages that were compelling in the promotion of CDA legislation. For instance, education was judged as a widely supported use of CDAs, while retirement was determined to be less persuasive.

Two memos from Hart Research that summarize the results of this national poll can be found in the Appendices. The first, in Appendix F, Public Support for Children's Savings Accounts, reviews how the general public and parents respond to the idea of CDAs. The second, in Appendix G, Messages for Promoting Children's Savings Accounts, offers specific messaging tactics to use in promoting CDA legislation.

IDENTIFYING A CDA PLATFORM

Experience suggests two approaches to creating new opportunities for children's savings: using existing structures as a platform for CDAs or authorizing and funding a new structure for CDAs. The choice of approach may depend on a number of factors, including allies, intended uses (for example, education-only versus broader asset-building goals), and windows of opportunity.

Using Existing Structures as Platforms for Children's Savings Policy

One of the challenges of launching any CDA initiative is that there is no "perfect" pre-existing account vehicle that is specifically designed for CDAs. Although no existing account platform meets all of the ideal design criteria for CDAs, a few are promising and share many key features. Generally, there are three kinds of accounts that work best as children's development accounts – 529 college savings plans, Coverdell Education Savings Accounts and IRAs. These accounts have potential because: they are long-term savings and investment products, they provide some form of tax-preferred accumulation, they are widely available and they offer limited uses similar to those most commonly proposed for CDAs. Of these, 529 accounts have by far gained the most ground, as described in the following section.

States that Currently Match Deposits into 529 Accounts

Twelve states currently incent low- and moderate-income households to save in their state's 529 college savings plan, either by matching deposits or providing a tax credit on contributions.[39]

Incentivized 529 College Savings Plans

State	Incentive criteria and eligibility requirements[40]	Minimum initial deposit	Minimum deposit[41]
Arkansas	▪ 200% match up to $500/year for Adjusted Gross Income (AGI), up to $30,000 ▪ 100% match up to $500/year for AGI, $30,000-$60,000 ▪ Five-year maximum eligibility.	$25	$25
Colorado	▪ 100% match up to $500/year ▪ Five-year maximum eligibility.	$25	$15
Indiana	▪ 20% non-refundable tax credit on first $5,000/year ▪ Eligible until the account is rolled over, closed or changes beneficiary	$25	$25
Kansas	▪ 100% match for contributions of at least $100 each year, up to $600/year for families below 200% of the federal poverty level (FPL) ▪ Eligible for as long as income requirement is met	$250	$50

State	Incentive criteria and eligibility requirements[40]	Minimum initial deposit	Minimum deposit[41]
Louisiana	Annual match rates vary according to AGI: ■ $0-$29,999: 14% ■ $30,000- $44,999: 12% ■ $45,000- $59,999: 9% ■ $60,000- $74,999: 6% ■ $75,000- $99,999: 4% ■ $100,000+: 2% ■ Eligible until account balance reaches $235,500 or until account is rolled over, closed or changes beneficiary	$10	$10
Maine	■ 50% match for AGI below $75,000, up to $200/year ■ Eligible until the account is rolled over, closed or changes beneficiary	$0	$0
Michigan	■ 33% match for AGI below $80,000, up to $200/year ■ One-year maximum eligibility	$25	$25
Minnesota	■ 15% match, up to $400/year for AGI less than $50,000; 10% match, up to $400/year for AGI $50,000-$80,000 ■ Eligible until the account is rolled over, closed or changes beneficiary	$25	$25
North Dakota	■ 100% match for contributions up to $300 for families with AGI of up to $40,000 single, $80,000 joint ■ Beneficiary must be 12 or younger and match must be applied for in first 13 months after account opening ■ Three-year maximum eligibility for AGI $20,000 single, $40,000 joint; one-year maximum eligibility for AGI $40,000 single, $80,000 joint	$25	$25
Rhode Island	■ 200% match up to $1,000/year for families with AGI of $71,000 or less ■ 100% match up to $500/year for families with AGI of $71,000-$86,000 ■ Five-year maximum eligibility	$250	$50
Utah	■ 100% match up to $400/year for families with income less than 200% of FPL ■ 5% tax credit for all income levels, up to $87/year for single filers or $174 for joint filers ■ Four-year maximum match eligibility, or until the account is rolled over, closed or changes beneficiary ■ No time limit on eligibility for tax credit	None	None
Vermont	■ 10% tax credit for all income levels, up to $250/year ■ Eligible until the account is rolled over, closed or changes beneficiary	$25	$25

Details on each state's matched 529 programs are found in the following sections, and comprehensive information on all states' plan elements are provided in Appendix H.

Arkansas: Advocates and policymakers in Arkansas are intentionally taking an incremental approach to move toward universal incentives for college savings. The state's first step was to create a pilot program to test the demand and efficacy of an incentivized 529 account. The Aspiring Scholars Matching Grant program was authorized under Act 597 of 2007. The primary purpose of the program is to provide an incentive, in the form of a savings match, for low- and moderate-income families to save for their children's college education using the Arkansas Gift College Investment Plan (the state's 529 plan).

Accountholders may earn up to $500 in matching funds per year for up to five years. Lower-income accountholders earn $2 for every $1 they save; moderate-income accountholders receive a dollar-for-dollar match. The program began with annual funding of $235,000, generated by the annual fees collected by the state for the administration of its 529 plan. In the Aspiring Scholars program's second year, 576 accountholders enrolled – up from 469 accountholders in the first year of operation. Those who opened accounts in 2008 received an average matching grant of $422, taking almost full advantage of the $500 available. The pilot's success to date means that the program is on pace to outgrow its current funding source. Advocates and policymakers are now devising a strategy to secure an alternative funding source that will allow the program to expand and eventually become a universal program. A first step in this strategy is to broadly publicize the success of the pilot program; such efforts are under way.

Colorado: In 2005, Colorado introduced the CollegeInvest Matching Grant Program, which provides a one-to-one match, up to $500 per account annually for a maximum of five consecutive years, to qualifying low- and middle-income families who open 529 college savings accounts.[42] Families with incomes at 200% of the federal poverty level (FPL) are eligible; families must open accounts for the children prior to the children's 13th birthday. Matches will be made on contributions from the previous calendar year. The matching grants are distributed on a first-come-first-served basis and are subject to the availability of funds. Funding is subject to annual appropriation. CollegeInvest is a not-for-profit division of the Colorado Department of Higher Education.

Kansas: The KIDS (Kansas Investments Developing Scholars) matching grant program provides a 1:1 match up to $600 per year on deposits into a Kansas Learning Quest Education Savings account.[43] Families with incomes below 200% of the FPL are eligible. The initiative began in 2006, when Kansas launched a three-year pilot matching grant program for the state's 529 college savings plan. In 2009, the Kansas state legislature made the program a permanent part of the Learning Quest Education Savings Program and appropriated funds for 2009. The program is limited to 300 participants from each of Kansas' four congressional districts; that cap of 1,200 will be reviewed each year and is subject to appropriations. The matching program is funded by tax revenues, as opposed to fees paid by other 529 investors. To open an account, families must either sign up for a payroll deduction or an automatic monthly withdrawal from their bank account of at least $25, or make a one-time contribution of at least $250. To receive matching grant funds, participants must contribute at least $100 a year.

Louisiana: The Louisiana Student Tuition Assistance & Revenue Trust (START) college savings plan is administered by the Louisiana Office of Student Financial Assistance.[44] General revenue appropriated by the state legislature is used to match deposits made by low-income accountholders. The initial investment, and subsequent minimum deposit, for participation in Louisiana's START Plan is $10. The state will annually match a percentage of the deposits made into an account during the calendar year. The match rate is dependent on the AGI of the accountholder, ranging from a high of 14% of contributions for families with an AGI up to $29,999, to a low of 2% for incomes of $100,000 and above.

By providing matches for families with higher incomes, Louisiana has established a nearly universal policy of progressive children's savings. Also, the relatively minimal deposit requirements allow low-income residents to participate.

Maine: In 2006, Maine became the first state to establish universal, progressive CDAs at birth when its NextGen®Plan – which is administered through the Office of the State Treasurer and the Finance Authority of Maine – implemented a $50 "First Step Grant."[45] All Maine residents born after January 1, 2006 were eligible. Prior to The First Step Grant, families had to produce a $50 minimum initial payment in order to obtain a state 529 plan. The $50 First Step Grant removed this barrier to participation, enabling lower-income families to participate.

In December 2007, Maine announced the first non-legislative, universal, state child savings policy. The Harold Alfond Foundation created the Alfond College Challenge, which provides a $500 grant to be invested in a NextGen Account for all Maine newborns. The first phase of the initiative began in two cities on January 1, 2008, and was taken statewide on January 1, 2009. Accounts must be opened within a year of the child's birth.

The NextGen®Plan allows families with an AGI of less than $75,000 to receive a one-time additional deposit of $200 from the state, and an annual match of 50% of contributions, up to a maximum of $200. Revenue generated from 529 plan fees are used to pay for the match. With the introduction of the First Step Grant and the elimination of a monthly deposit requirement, Maine's NextGen®Plan now features progressivity that offers significant benefits to low-income savers in the state.

Additionally, in 2006, Maine launched a Lifelong Learning Account program to encourage employers to match workers' deposits into NextGen accounts. In 2007, Maine added additional benefits to participating in the NextGen program by allowing a $250 state tax deduction for contributing families with incomes at or below $100,000 (single) or $200,000 (married).

Michigan: The Michigan Education Savings Plan (MESP) is administered through the Michigan Department of the Treasury.[46] In Michigan, general revenue appropriated by the legislature is used to match deposits made by low-income accountholders. The initial investment for participation, and continuing minimum deposit, is $25. The state provides a matching grant of $1 for each $3 contributed to a MESP account, up to a lifetime maximum matching grant of $200 per eligible beneficiary. Matching grants are only available during the first year that the beneficiary is enrolled in MESP and are based on the following eligibility requirements: beneficiary must reside in a household with a family income of $80,000 or less; beneficiary must be six years old or younger when the account is opened; and beneficiary must be a resident of Michigan.

Minnesota: The Minnesota College Savings Plan is administered through the Minnesota Higher Education Services Office.[47] General revenue appropriated by the Minnesota legislature from funds is used to match deposits made by low-income accountholders. The initial investment for participation in Minnesota's plan is $25, and there is a $15 minimum deposit. The program provides an annual matching grant to eligible in-state families contributing at least $200 to the plan during a calendar year. Maximum matching grants are $400 per year. Families with AGI of $50,000 or less may receive a matching grant of up to 15% of their contributions during the year. Families earning between $50,000 and $80,000 may receive up to 10% of their contributions.

North Dakota: College SAVE, North Dakota's 529 program, offers a one-time, $300 matching grant for certain state residents. Specifically, households with an AGI of $20,000, if single, or $40,000, if married, are eligible for three years of the match; households with AGIs of $40,000, if single, or $80,000 if married are eligible for one year of the match. The match is provided through the Bank of North Dakota and is only open to North Dakota residents who meet the income guidelines and who make deposits to the account within the first year that the account is opened.

Rhode Island: The Rhode Island CollegeBoundfund is administered by the Rhode Island Department of the Treasury and the Higher Education Assistance Authority.[48] In Rhode Island, revenue generated from 529 plan fees are used to match deposits made by low-income accountholders. The initial investment for participation in the CollegeBoundfund is $250 and there is a minimum initial deposit of at least $50 (based on income). A 2:1 match is offered to state-resident families with an AGI at or below $71,000, with a $1,000 annual maximum. Families with an AGI between $70,001 and $86,000 are eligible for a one-to-one match, with a $500 annual maximum. To be eligible for the match, the account must be opened before the child reaches age 11. Matching grants are available for a period of five consecutive years.

Given the large initial investment required by Rhode Island's program, it is questionable whether low-income savers will have adequate access to the CollegeBoundfund.

Utah: In 2004, Utah launched a pilot program within the Utah Educational Savings Plan (UESP), the state's 529 program. The pilot program provides a one-to-one match, up to $300 per year for four years, for Utah residents who meet income eligibility requirements, open accounts and save at least $100 that calendar year. The first phase of the pilot program was limited to the first 50 residents with incomes of 200% of the FPL or below, or who were eligible for TANF. The state has continued to fund the program on a limited basis. UESP is overseen by the Utah State Board of Regents and the Utah Higher Education Assistance Authority Board of Directors. Additionally, Utah provides a tax credit of $87 for single filer and $174 for joint filers to taxpayers who contribute to 529 accounts. This credit is offered in addition to Utah's match on 529 deposits for low-income families. There is no limit on the number of years that a family can receive the credit.

Tax credit incentives in other states: Like Utah, in an alternative approach to incentivizing college savings, Indiana and Vermont have created tax credits for households to reduce their state income tax burden by claiming contributions to 529 accounts. Indiana provides a non-refundable tax credit on the first 20% of $5,000 saved in the account each year. Vermont provides a 10% tax credit on the first $2,500 in 529 deposits each year. This equates to a maximum credit of $250 per year. This credit is available to families until the account is either rolled over, closed or changes beneficiaries.

Other Proposals for Matched 529 Programs

Michigan: The Asset Building Policy Project at the Community Economic Development Association of Michigan has proposed building on the state's existing 529 structure to promote a more progressive and universal children's savings plan. The basic structure would remain the same, but under the proposed plan, the Michigan Education Savings Program (MESP) would:

- provide a 2:1 match ($1,000 maximum lifetime match per account) for state-resident families with AGI at or below 200% of the poverty line;
- provide a 1:1 match ($1,000 maximum lifetime match per account) for state-resident families with and AGI between 201% and 300% of the poverty line;
- eliminate the required age for the matching grant in order to encourage employers to use the MESP as a vehicle for employees to save toward their own postsecondary and adult education;
- allow matches for the first two years the beneficiary is enrolled in the MESP; and
- exclude savings in MESP accounts from state financial aid determinations for families with an AGI at or below 200 percent of the poverty line.

Oklahoma: In 2007, the Oklahoma State Treasurer's Office began opening accounts for participating families in SEED for Oklahoma Kids (SEED OK), a large-scale randomized experiment to test universal CDAs.[49] SEED OK is being led by the Center for Social Development, a national partner in SEED, in partnership with the Oklahoma State Treasurer's Office. This experiment is testing a fully scalable delivery system by establishing a 529 college savings account for randomly selected newborns.

Additionally, the Oklahoma Kids' College Saving Campaign is working to develop a policy that will allow for a matched savings system linked to the state's 529 plan that will accommodate variable match rates from both public and private match sources, involve financial education for program participants and prioritize enrollment of pre-school aged children from low-income families.

In May 2006, the Oklahoma House and Senate approved the creation of an Oklahoma College Savings Task Force. The task force concluded its work in December 2006 by unanimously adopting a report that recommends the development of a matched savings program for the Oklahoma 529 College Savings Plan. The report's recommendations include an automatic initial deposit at birth for low- and moderate-income families; progressively matched deposits; and incorporation of the Oklahoma 529 College Savings Plan into the state's K-12 financial education curricula.

Other Models that Inform State Children's Savings Policy

The Province of Alberta, Canada has enacted a universal province-level children's savings policy. The Alberta Centennial Education Savings (ACES) Plan, introduced by the Government of Alberta, was approved in 2004 and took effect on January 1, 2005. Similar to 529 plans in the United States, ACES is intended to help new parents start saving for their newborn's postsecondary education. ACES works hand-in-hand with the Canada Learning Bond[50] and the Canada Education Savings Grant Program to provide Alberta residents with additional incentives to save for their children's college expenses.

Unlike grant programs that use American 529 plans as a platform, ACES is a universal policy – it provides $500 towards a Registered Education Savings Plan (RESP) for every child born to or adopted by Alberta residents in 2005 and after. Additionally, the plan calls for subsequent grants of $100 to be made available for children attending school in Alberta at ages 8, 11 and 14, starting with children born in 2005, meaning the first of the $100 grants are slated for disbursement in 2013.

Under ACES, eligibility for the initial $500 grant requires that the parent register and obtain a social insurance number for the child. They then must open an RESP in the child's name, and request the ACES Grant, which is processed by the bank or RESP provider.

It is estimated that about 40,000 children will be eligible for the ACES Grant each year. Accordingly, the Alberta government will invest $20 million annually in ACES, with that number growing to $30 million annually by 2019.

Issues to Consider When Using 529 Accounts as a Platform to Advance Children's Savings Policy

While 529s are a popular account vehicle for CDAs, they also have important limitations and potential ramifications for accountholders. Policymakers interested in establishing CDAs should consider these factors when evaluating 529s as a potential platform:

Structural restrictions: At this point, 529 plans can only be used to finance postsecondary education. Ideally, children's savings policy will allow savings to be used for homeownership, business finance and/or retirement, in addition to education. However, it is conceivable that 529 savings eventually could be opened to other uses.

Fees: Account establishment, maintenance and other miscellaneous fees associated with 529 accounts can add up. Each state's plan is different. State advocates should assess plan fees to determine whether they will hinder low-income savers.

Minimum deposit requirements: Minimum monthly deposit and initial deposit requirements, which vary by state, may preclude lower-income participation.

Interaction with financial aid: 529 plans are designed to be owned by parents or an organization for the benefit of a child. Minors cannot own 529s directly because they are invested in securities, but can own 529s through a custodial/UTMA arrangement. Whether owned by a parent or a child, 529 accounts are treated the same way for financial aid purposes: 5.64% of funds in a 529 are counted toward the expected family contribution to college expenses.[51]

Inclusiveness: The 529 structure is more inclusive than that of 401(k)s, IRAs or other existing asset-based policies.[52] There are several reasons to believe that 529 plans can be adapted to foster a large-scale, inclusive policy that serves both poor and non-poor Americans. This potential exists because 529s have public sector oversight that allows incentives and coordination with other policy efforts, centralized accounting functions, a limited number of investment options and the ability to cross-subsidize between large and small accounts.[53]

Because states are not required to collect information on the characteristics of 529 investors, at this point little is known about the economic profile of accountholders. However, research suggests that 529 plans are predominantly a savings venue for middle- and upper-income families. According to a 2009 study by the Investment Company Institute, of those families with college savings in a 529, Coverdell, ESA or mutual fund account, 80% had income over $50,000.[54] In comparison, in 2007 the median income of all American households with children under age 18 was $50,740. Thus, it appears that only 20% of families with income lower than the median of roughly $50,000 are taking advantage of these tax-advantaged college savings vehicles. State advocates for children's savings policy should assess the inclusiveness of the existing 529 plan structure to determine whether it is accessible to low-income savers.

Financial aid considerations:[55] The most obvious and publicly supported use for CDAs is education. However, with the cost of higher education increasing at a rate faster than inflation and the cost of a four-year public university reaching 71% of a low-income family's total income,[56] it is likely that most accountholders will require need-based financial aid to pay for college even with the assistance of a CDA. Eligibility for need-based aid, whether federal, state, or institutional, is usually determined based on a variety of factors, including the assets of both the student and the household. Understanding the impact that existing CDA structures have on financial aid eligibility is a critical issue to consider when evaluating various account options.

- ***529 college savings accounts:*** Assets held in 529s or ESAs are included in the calculation of a family's available resources in the formulas used to determine financial aid. Beginning in the 2009-2010 school year, both 529s owned by children in custodial arrangements and those owned by parents are assessed at a maximum rate of 5.64% for financial aid purposes – meaning that up to 5.64% of the assets will be counted toward the family's expected contribution to college expenses. Previously, a congressional loophole was inadvertently created that allowed child-owned 529 accounts to be disregarded as family resources in financial aid calculations through the 2008-2009 school year. That loophole has since been closed.
- ***Coverdell Education Savings Accounts (ESAs):*** Assets held in ESAs are also included in the calculation of a family's available resources: a 2004 U.S. Department of Education ruling determined that ESAs should receive the same treatment as parent-owned 529 accounts, making them subject to the 5.64% assessment. Although they offer no significant earnings advantages over 529 accounts, ESAs offer a slightly more flexible range of investments and slightly more flexible use (given that precollege education is an eligible option). These accounts may be as attractive as 529s as an option for CDAs, especially for lower-income families who are unlikely to exceed the $2,000 cap on annual contributions.
- ***IRAs:*** Among the types of accounts discussed, IRAs receive the most advantageous treatment from a financial aid perspective. Because all retirement assets are excluded from the calculation of a family's available resources in the formulas used to determine federal, need-based financial aid, assets held in traditional IRAs or Roth IRAs are excluded from calculation of a family's expected contribution towards college expenses (although withdrawals are counted as income in the year in which they are made). However, because of the current requirement that contributions come from earned income, their usefulness for children's savings accounts is limited to older youth.

Type of account vehicle	Pros	Cons
529 College Savings Accounts	▪ Contributions to 529s are deductible from state income tax in some states ▪ Some states provide additional match or credits to supplement savings in 529s ▪ Provide federal tax benefit ▪ Less likely to be counted in asset tests ▪ Allow opportunity for significant interest earnings over time ▪ Penalties and "lag time" for withdrawals may dissuade withdrawals for non-asset uses	▪ Only allowable use is postsecondary education or job training ▪ Deposits must be made by mail or electronically; no "bricks-and-mortar" bank ▪ Minimum deposit requirements may apply ▪ Accountholders and families must make investment decisions; may require additional financial education
Coverdell Education Savings Accounts	▪ Provide federal tax benefit ▪ Less likely to be counted in asset tests ▪ Allow opportunity for significant interest earnings over time ▪ Penalties and "lag time" for withdrawals may dissuade withdrawals for non-asset uses	▪ Only allowable use is education (secondary, postsecondary, or job training) ▪ Deposits limited to $2,000 per year ▪ Accountholders and families must make investment decisions; may require additional financial education
Traditional and/or Roth IRAs	▪ Most flexibility in eligible uses, including postsecondary education, homeownership and retirement ▪ Receive the most advantageous treatment from a financial aid perspective ▪ Provide federal tax benefit ▪ Less likely to be counted in asset tests ▪ Allow opportunity for significant interest earnings over time ▪ Penalties and "lag time" for withdrawals may dissuade withdrawals for non-asset uses	▪ Deposits to IRAs must be made from income earned by the account owner. Therefore, IRAs are not appropriate for children too young to work, or for older children who do not have a job ▪ Accountholders and families must make investment decisions; may require additional financial education
Investment Accounts (UGMA/UTMA)	▪ Allow for unlimited flexibility of uses ▪ Allow opportunity for significant interest earnings over time ▪ "Lag time" for withdrawals may dissuade withdrawals for non-asset uses	▪ No federal or state tax benefits ▪ More likely to be counted in asset tests ▪ Deposits must usually be made by mail or electronically; no "bricks and mortar "bank ▪ Minimum deposit requirements may apply ▪ Accountholders and families must make investment decisions; may require additional financial education
Regular Savings Accounts	▪ Allow for unlimited flexibility of uses ▪ Participants have easy access to "bricks-and-mortar "banks ▪ Familiar product that is easy to understand	▪ Significantly lower earning potential than other account options ▪ More likely to be counted in asset tests ▪ No federal or state tax benefits ▪ No "lag time," so non-asset withdrawals are easier to make ▪ More challenging to manage in large-scale programs

Other Policy Structures that Could Provide a Platform for CDAs

The tax system can be a gateway to building savings and assets. In the 2007 tax season, the IRS sent refund checks averaging $2,371 to almost 107 million individual tax filers.[57] These cash infusions are often the best chance people have to save money in any given year, particularly low-income working families receiving the Earned Income Tax Credit (EITC).

One of the largest and most effective wage support programs for low- and moderate-income families, the federal EITC supplements the earnings of workers by reducing their tax burdens. If the EITC is greater than the amount of taxes owed, the taxpayer receives a refund. As a result, the EITC helps lift more than 4.4 million Americans out of poverty every year, half of whom are children.[58] The EITC is also a means to reducing asset poverty. Studies have shown that some families use EITC payments for significant purchases such as a house or to pay off debts.[59] Families can also use the credit they receive each year to start saving for the future.

In addition to the federal EITC, 23 states and the District of Columbia have instituted state EITCs, which are typically a percentage of the federal credit.[60] Families who file taxes in these states receive an even larger EITC. Some cities also offer a citywide EITC in addition to the federal and state credits, including Washington, DC, Denver and San Francisco.

One promising idea with respect to children's savings policy is to use state funds to provide a "bonus" for low-income savers to deposit a portion of their state EITC refund into a savings vehicle. A study from the Retirement Security Project provides compelling evidence that providing such a bonus would generate results. Researchers found that a randomized sample of Americans were willing to invest four to eight times more in a long-term savings vehicle when these investments were matched. Providing an incentive to low- income savers through a bonus on a state EITC refund would be a way to create progressive children's savings policy.

Authorizing a New CDA Structure

While privately-funded efforts such as the SEED OK experiment and the Alfond College Challenge have proven initially successful, some state officials are interested in legislatively authorizing and funding new children's savings account structures – essentially creating a state version of the federal ASPIRE Act. Four states (California, Hawaii, North Dakota and Oklahoma) have seen proposals for statewide CDAs, but none have passed into law.

- SB 752 was introduced in California in February 2007 to establish Kids Investment and Development Savings (KIDS) Accounts for every child born in the state. The accounts featured a $500 initial deposit by the state. Funds from the accounts would have been available for withdrawal upon the child's 18th birthday, and could be used for post-secondary education and training, first home purchase or retirement. Soon after the bill's introduction, conservative and anti-immigrant networks were activated to voice their opposition to the bill, and the Republican co-sponsor withdrew his support.
- In 2007, the Hawaii Senate introduced SB 1936 to provide every child born in Hawaii with a $1,000 voucher to be deposited in a Hawaii 529 account, along with additional "periodic investments." SB 1936 was included among a larger asset building package of bills. Unfortunately, none of the seven bills in the package passed. The Senate also introduced an omnibus bill on asset building that died when the Senate and the House could not come to agreement on amendments.
- In early 2009, legislators in North Dakota introduced HB 1508 which would have established an account at birth for every child in the state, with an initial deposit and a match on participant deposits. This bill was inspired by a similar draft bill from Montana. The North Dakota bill was voted down in committee; however, it opened the door to continued discussion on savings and asset-building for children and youth in the state.
- The Oklahoma House introduced a children's savings account bill in 2007 and 2008, spurred by the findings of a legislative

task force focused on children's savings (see following section for details). The Building Equity and Expanding Access to College for Oklahoma Newborns (BEEACON) Act (HB 1805 in 2007 and HB 2988 in 2008), introduced by Rep. Jeannie McDaniel (D-Tulsa), would provide all children born in Oklahoma with a $200 initial deposit into the state's 529 college savings plan. Deposits into accounts of children under age 6 would be matched 2:1, and deposits into accounts of children between the ages of 6 and 18 would be matched 1:1, with a maximum annual state match of $100. HB 2988 died in appropriations.

In seeking to authorize and fund a new CDA structure, states should be aware of the following:

- The tax implications of creating and maintaining children's savings policy can be significant, especially when considering the creation of new savings account structures. In proposing a new account structure, be aware of how it will interact with existing federal and state laws and programs, particularly public benefits programs, federal and state financial aid, and federal and state tax codes.
- Any attempt to reallocate state funds will be met with resistance. However, strong bipartisan partnerships can advance big ideas. Coalitions and partnerships that cross party lines and believe in a common goal can be effective at funding children's savings policy.

SECURING FUNDING

One challenge in enacting CDA policy is finding the funds to support it. The current challenging budgetary climate in many states means that advocates must think creatively about where to find resources to fund a savings match or other incentive. Many competing priorities and shrinking revenues mean that dedicated funding is more difficult than ever to secure. However, lack of dedicated funding should not deter the opportunity for positive policy change, as the dollars may be appropriated only after a sound framework has been designed. Notwithstanding the current budget situation or appropriations cycle, advocates should generally settle on the desired set of savings incentives, and pursue funding options concurrently or following the enactment of the policy change.

Potential Funding Sources

Source	Process	Pros	Cons
General funds	Legislative appropriation (annual and biennial)	▪ Can provide significant source of money ▪ Can lay groundwork for more reliable funding	▪ Requires periodic appropriation, necessitating ongoing advocacy ▪ May be subject to changing political realities
CDBG funds	Administrative allocation	▪ Widely available ▪ Generally flexible uses	▪ Application and reporting fairly time- and labor-intensive ▪ Small Cities CDBG funds can only be used in small towns and rural areas ▪ Competition for funds among several worthy uses
Fees, proceeds, or one-time payouts	Legislative authorization of trust fund	▪ Funds are earmarked so that they cannot be "raided" during economic downturns ▪ Once established, doesn't require annual appropriations; thus not subject to political whims	▪ One-time payout would have to be relatively large to generate sufficient interest to fund CDAs ▪ One-time payouts often go to capital expenditures (e.g., schools and roads) ▪ Most states already have multiple trust funds; may be politically difficult to establish additional fund, particularly for a "new" idea such as CDAs ▪ Revenue from "sin taxes" (e.g., cigarettes) may diminish over time
Tax credits for matching entities	Legislative authorization	▪ Insulates CDAs from appropriations battles ▪ Effective strategy for generating sustained source of funding in long run ▪ Federal legislative model exists (Savings for Working Families Act)	▪ May be unpredictable; funds generated depend in large part on demand for the tax credits among financial institutions ▪ May pose an obstacle to leveraging other financial support because total dollars available cannot be predicted in advance

Source	Process	Pros	Cons
Tax credits for accountholders	Legislative authorization	■ Federal legislative model exists (Saver's Credit) ■ Uses same mechanism (tax code) that benefits higher-income people ■ Reduces bureaucracy by using the tax code	■ Utilization may be low without education and outreach
Private funds	Philanthropic contributions	■ Flexibility ■ Enables partnerships and innovation with private/public entities	■ Few sources ■ Sustainability is difficult given the potentially undiversified investment

Aside from general revenue, advocates should pursue other potential sources of funding. These might include 529 account (administrative) fees, revenues from surplus unemployment insurance trust funds and other special funds, such as tobacco settlements, oil/gas revenues and unclaimed property revenues.

Another potential strategy is to identify revenue generators that also address structural tax policy shortcomings, such as passing a sales tax on services, implementing an "Amazon law" to ensure that consumers pay taxes on Internet purchases or increasing personal income taxes on upper-income taxpayers. In addition, closing tax loopholes can be a challenging process and often generates strong opposition – but has the potential to generate substantial amounts of revenue.

Finally, be willing to take one-time or start-up funding to get a program going. Some policymakers may be skeptical that the initiative will work; beginning with a pilot allows advocates to demonstrate success and build the case for future investments. A pilot can be launched with modest funding; for example, just $250,000 was enough to get a matched 529 pilot started in Arkansas.

Example: State Trust Funds

The Alaska Permanent Fund is Alaska's "savings account." Created in 1977, it allows the state to save a portion of non-renewable revenues received from oil production. The Permanent Fund was envisioned as a permanent source of revenue for the state through the conversion of a non-sustainable flow of dollars into a permanent financial resource. The state constitution prohibits legislators from spending the principal from the Permanent Fund, and over time its value has grown though deposits and reinvestment of earnings. The fund is currently valued at approximately $30 billion.[61]

In 1982, the Alaska Permanent Fund Dividend (PFD) program was established. This program provides an equal payment each year to every Alaskan, regardless of age, from a portion of the earnings of the Permanent Fund. The size of the PFD is a function of the earnings of the Permanent Fund and fluctuates each year. For example, in 2006, each Alaskan received a check for $1,107; in 2008, the payment was $3,269.[62]

The PFD has incredible potential to empower people, especially lower-income families and individuals. Although residents are not required to save these dividends rather than spend them, the fund provides a potential permanent funding stream for CDAs. A large portion of the proceeds from the Permanent Fund go to children – in 2003, almost 185,000 children under the age of 18 received PFDs.

Alaska could further leverage these resources by earmarking a portion of the liquid assets in the PFD to create incentives, through progressively matched deposits, for Alaskan families to deposit their PFD checks into children's savings accounts.[63]

Example: Using Interest from Unclaimed Property as a Funding Source

In 2006, then-Missouri State Treasurer Sarah Steelman was a champion of the Missouri Legacy Initiative, which would provide matching college grants for parents or grandparents who start college savings plans for their child by opening an account in the Missouri Saving for Tuition (MOST) 529 plan. Steelman's proposal, which was included in SB 254, sought to use interest earned from unclaimed property to fund the initiative. Steelman estimated that changes to unclaimed property laws would have generated approximately $2.5 million annually for these matching college grants. This proposal died in committee.

Asset Limits in Public Benefit Programs

Federal and state public benefit policies often discourage low-income and low-resource families from saving and accumulating assets. Programs have shown greater recognition of the importance of asset accumulation in recent years, but eligibility rules still hamper the ability of families to save for their future needs.

Many public benefit programs – including cash welfare and Medicaid – limit eligibility to those with few or no assets. If individuals or families have assets exceeding the state's limit, they must "spend down" longer-term savings in order to receive what is often short-term public assistance. These asset limits, which were originally created to ensure that public resources did not go to "asset-rich" individuals, are a relic of entitlement policies that in some cases no longer exist. Cash welfare programs, for example, now focus on quickly moving individuals and families to self-sufficiency, rather than allowing them to receive benefits indefinitely. Personal savings and assets are precisely the kinds of resources that allow people to move off public benefit programs. Yet asset limits can discourage anyone considering or receiving public benefits from saving for the future.

For some programs, such as SSI, the federal government sets the asset limits, while for others, states determine many key policies. States have discretion in setting or eliminating asset limits for TANF, Medicaid and the Children's Health Insurance Program (CHIP).[64] In addition, states have the authority to address asset limits for the SNAP.[65]

The Treatment of Assets in Major Public Benefit Programs

Though there have been federal efforts to strike asset limits from all public assistance programs, none have yet succeeded.[66] On the state level, more progress has been made.

Supplemental Security Income: Though states have some say in setting asset limits for other public benefit programs, they have no such flexibility for SSI, where federal rules specify the asset limit and what counts toward determining asset eligibility. SSI is a federally funded and administered program that provides cash assistance to low-income adults and children who are aged, blind or disabled. The asset limit, which is $2,000 for an individual and $3,000 for a couple, is set by the federal government. SSI permits some asset accumulation by disabled or blind adults and youth through its Plan to Achieve Self Support (PASS). These plans are designed to allow these individuals to set occupational goals and to save and spend funds to achieve this goal. PASS accounts can only initially last for 18 months, although they can be extended for up to 48 months. It also does not appear that a PASS account has ever been approved for a child under the age of 14.

Temporary Assistance to Needy Families: The TANF program is the federal government's primary cash assistance program to low-income families. Administered by states, it is funded jointly by federal and state governments. States may choose whether or not to have asset limits; may set their own asset limits if they elect to have one; and may determine what assets will be counted toward the limit. Most states set their asset limits in the $2,000 to 3,000 range, including vehicles, though many states exclude some assets from being counted toward the limit. Louisiana, Ohio and Virginia have completely eliminated their TANF asset tests. Colorado increased its asset limit to $15,000 in 2006.

Medicaid: Medicaid is a joint federal- and state-funded health insurance program, administered at the state level. States have discretion to set their own asset limits in Medicaid in determining eligibility for parents and children and may disregard all assets of an entire family. Twenty-three states have eliminated asset limits entirely for family Medicaid[67] and most have waived the asset test for children. If the state does not have an asset test for Medicaid for children but does have one for parents, the child's asset can count against the family's asset limit if the whole family were to apply for benefits.

Children's Health Insurance Program (CHIP): Congress reauthorized CHIP in 2009, providing states with almost $33 billion through 2013 to provide health insurance coverage to low-income children. Additionally, the government introduced a "performance bonus" which provides additional financial support to states that implement select policies for both Medicaid and CHIP. One such policy is elimination of the asset test or simplified asset verification. As a result, only two states retain CHIP asset limits.[68]

Child Care and Development Fund (CCDF): CCDF provides states with funds for child care subsidies for working families and families in education and training with incomes below 85% of state median income (although states can and do set lower income eligibility limits). States have complete flexibility in setting asset rules and most states do not have child care asset tests.

Asset Limit Challenges for CDA Programs

Asset limits are problematic for any asset-building effort – and CDAs are no exception. Through the research and practice activities in SEED, several issues specific to CDAs have emerged. For example:

- ***Asset limits can discourage children from saving what they earn.*** Most states exclude children's earnings from income limits for public benefit programs, if the child is a student. However, once those earnings are placed in an account, they may begin to count against asset limits. Even though the earnings are not counting against the family from an income perspective, they are still treated as an asset to the family if they are not spent in the month in which they are earned. These policies can have the counterproductive effect of encouraging youth to spend their earnings immediately, rather than aim for self-sufficiency by planning for future needs, such as college education.
- ***Young children face the steepest barriers.*** In a related vein, those states that exempt CDAs from asset tests often require that all deposits come from the children's own earnings. This type of policy limits savings opportunities to older children who are able to work, thus excluding those who could benefit most from starting young and allowing savings to grow over time.
- ***Families receiving public benefits have few options for saving toward their children's future.*** Depending on the state, some types of asset protections are available for certain types of savings accounts, such as IDAs, restricted bank accounts, college savings plans and trusts (accounts that are considered "inaccessible" to the family for everyday use). However, each type of account has its own set of restrictions (for instance, the source or use of funds may be limited), and the protections for low-income families who are saving in these accounts vary widely across states.
- ***There is little consistency in the treatment of children's savings by public benefit programs.*** CDA providers must navigate a patchwork of programs, each of which has differing asset policies with regard to dollar amounts, types of accounts, sources of deposits, and allowable savings goals.

Reforming Asset Limit Rules to Reduce Disincentives to Children's Savings

The best option: Eliminating asset limits. Ideally, states should completely eliminate asset limits in TANF, Medicaid and SNAP, which would by definition cover all types of children's savings accounts.

Since 1996, 23 states have eliminated Medicaid asset limits entirely; three states have eliminated TANF asset limits; and 24 states have eliminated SNAP asset limits, with several more planning to do so in late 2009. Evidence from states that have eliminated asset limits suggests that the administrative cost savings outweigh any real or potential increases in caseload. For instance, eliminating Medicaid asset limits in Oklahoma resulted in administrative cost savings of close to $1 million.[69] In

New Mexico, state officials anticipated 38 more people would enroll in Medicaid per month (with an associated increase of $23,000 in direct costs to the state, negligible in comparison with a $5.7 billion annual state budget).[70] In Ohio and Virginia, the "early adopters" of TANF asset limit elimination, caseloads decreased in the years following the change.[71] In Louisiana, where the TANF asset test was not eliminated until 2009, more time will be needed to determine the long-term effects on caseloads.

Intermediate steps: Raising asset limits and excluding asset classes. The existence of an asset limit, no matter how high, sends a signal to program applicants and participants that asset building should be avoided. However, if a state has not yet eliminated asset limits entirely, it can take several intermediate steps to reduce disincentives to children's savings:

- States can increase asset limits and/or index them to inflation, thereby lessening the likelihood that participants or applicants will reach the limit.
- States can exempt important classes of assets from their asset limits, particularly in the TANF and Medicaid programs.[72] While most programs exclude some "illiquid" assets, such as a home or defined benefit pension, many other liquid holdings often count against the asset limit in TANF and Medicaid. These include accounts that can be used for CDA initiatives, such as retirement accounts, education savings accounts and Individual Development Accounts. To encourage savings among children and youth, states can and should exempt these types of assets.

Since 1996, three states have substantially increased the asset limits in their Medicaid or TANF programs.[73,74] From a cost perspective, raising asset limits may be less desirable than eliminating the limits altogether, as there would still be administrative costs involved in individualized eligibility determinations and verifications. If the state has a limit, however high, it must still have a process for determining the amount of assets a family has and whether they exceed the limit.

The vast majority of states have excluded at least one important CDA-related category of assets from TANF or Medicaid tests, but much work still remains to be done to broaden and expand those exemptions. See Appendix I for a state-by-state summary of excluded assets that are relevant to CDA policy.

Other Policy Considerations

Finally, when advocating for asset limit reform with respect to CDAs, advocates should also consider the following policy recommendations, which may help to further reduce barriers to saving for low-income children and families:

Allow deposits to come from multiple sources. Currently, most states that provide exemptions for children's savings require that deposits be made from earned income. Allowing deposits from family members, including earned income and the EITC; nonprofit organizations; and children's earned and unearned income (such as birthday gifts) helps ensure that children of all ages can participate and allows families, not simply the children, to participate in building a future for their children through asset development. In addition, it allows children who have started saving later in their life to accumulate savings faster.

Do not impose more stringent rules for applicants than those that apply to recipients. Some states have higher asset limits or allow more savings among public assistance recipients rather than applicants. Requiring a family to divest any savings they have accumulated for their future needs in order to access public assistance in these cases is short-sighted and counterproductive.

BUILDING MOMENTUM THROUGH GOVERNMENT-SPONSORED STUDY COMMISSIONS

Big policy shifts often occur incrementally, and children's savings policy is no different. In a number of states where the time is not yet right for a full-fledged CDA policy, policymakers and advocates are continuing to raise the visibility of children's savings through a government-sponsored task force or study commission in order to build greater public support over the long run. These include:

Hawaii's State Asset Policy Task Force: In 2008, the Hawaii legislature passed SCR 92 and SR 52, which established a State Asset Policy Task Force charged with providing policy recommendations to the 2010 legislature regarding universal savings accounts for newborns, as well as financial education and asset limits. The task force has been meeting since Fall 2008 and is considering two potential children's savings strategies. The first would expand the state 529 college savings plan; widen participation through incentives, outreach and support; and ensure adequate savings upon maturity. The second option is to create a new, universal CDA platform. The task force will finalize its policy recommendations in late 2009.

Illinois' Children's Savings Account Task Force: Then-Illinois Gov. Rod Blagojevich initially signed into law the Illinois Children's Savings Accounts Act (HB 1662) in August 2007. The legislation created a task force to review and make recommendations about CDA program options in Illinois. The Illinois Asset Building Group successfully advocated for the passage of SB 1563, an update to the Children's Savings Account Act that passed both Houses and was presented to the governor for signature in June 2009. SB 1563 reauthorizes the Children's Savings Account Task Force to review program options, make recommendations, and create a strategic implementation plan for a CDA program in Illinois.

The Illinois Asset Building Group – co-chaired by the Heartland Institute and SEED community and state policy partner Sargent Shriver National Center for Poverty Law – was instrumental in crafting the bill and building support in the legislature. The task force will develop a written report to be presented to the governor and the Illinois general assembly by February 2010.

Kentucky's Cradle to College Commission:[75] In July 2004, Kentucky created the Cradle to College Commission through Administrative Order. The purpose of the Commission was to explore approaches to making college education in Kentucky more affordable. It was comprised of students, educators, community leaders, private sector stakeholders and financial service industry representatives. The commission was led by the Republican secretary of state and the Democratic state treasurer.

The Cradle to College Commission examined a proposal to provide Kentucky newborns with a Kentucky 529 college savings account in the year of their birth. The account would be funded to the degree that would ensure that families could afford at least a community or technical college education. Parents and grandparents could contribute to the account on a monthly or lump-sum basis. The accounts would be structured as a trust fund that combined the contributions of all participants, rather than as individual savings accounts, in order to maximize benefits from institutional investment activities. There would, however, be separate accounting records for each participant. The balance of the savings account immediately prior to college matriculation would be available to students, pending their agreement to fulfill certain community or military service requirements. By offering responsibility along with opportunity, the program would seek to allow children to take ownership of their futures and to inspire a cycle of mutually beneficial connectedness between the individual and the community.

The commission convened six times between fall 2004 and spring 2006 to discuss program funding, structure, and beneficiaries. It released a final report in fall 2006 and has not been active since that time.

North Carolina's Financial Literacy Council: In 2009, the North Carolina House and Senate passed SB 1019, which establishes a North Carolina Financial Literacy Council. The passage of this legislation, and the resulting council, builds on previous work by the private North Carolina Task Force on Children's Savings Accounts, which first met in 2008. The task force met to explore CDAs in North Carolina; existing CDA models, including matched 529s; and opportunities to engage children, especially low-income children, in the financial mainstream. Action for Children North Carolina, SEED's state policy partner in North Carolina, was instrumental in leading the private task force and advocating for the legislation. SB 1019 was signed by the governor and became law on July 10, 2009.

Oklahoma's Kids College Saving Campaign: In Oklahoma, children's savings account advocates have framed their work as a campaign – rather than a permanent coalition – and have focused specifically on enacting CDAs. In 2006, HCR 1075 became law, creating an Oklahoma College Savings Task Force charged with reviewing and recommending policies to increase low- and moderate-income family participation in 529 college savings plans. The Task Force released a unanimous report in December 2006 which recommended that low- and moderate-income newborns in the state receive a 529 account at birth with an initial deposit; that deposits to the 529 be matched for low-income families; and that Oklahoma K-12 schools incorporate information about Oklahoma 529 college savings plans into the state's financial education curriculum.

APPENDICES

Appendix A: SEED State Policy Grantees

State-level advocates in six states are working in partnership with CFED to develop state policies that create or expand progressive savings opportunities for children. The goal of these partnerships is to invest in state efforts that have a real possibility for a public policy breakthrough within five years. These policy partners lead state policy development, advocacy efforts, and constituency organizing in their states. This state-based effort is one important component of SEED.

The current SEED state policy partners as of September 2009 are:

- ***Arkansas:*** Southern Good Faith Fund
- ***Illinois:*** The Sargent Shriver National Center on Poverty Law and Heartland Alliance
- ***Montana:*** Rural Dynamics, Inc.
- ***North Carolina:*** Action for Children North Carolina
- ***Oklahoma:*** Oklahoma Policy Institute
- ***Texas:*** Center for Public Policy Priorities

Appendix B: Members of the SEED Policy Council

Deborah Adams, University of Kansas
Deepak Bhargava, Center for Community Change
Ray Boshara, New America Foundation
Jennifer Brooks, CFED
Leonard Burton, Jim Casey Youth Opportunity Initiative
Jim Chessen, American Bankers Association
Margaret Clancy, Ph.D., Center for Social Development at Washington University in St. Louis
Roger Clay, Insight Center for Community Economic Development
Reid Cramer, New America Foundation
Frank DeGiovanni, Ford Foundation
Angela Duran, Southern Good Faith Fund
Mary Fairchild, National Conference of State Legislators
Bob Friedman, CFED
Fred Goldberg, Skadden Arps LLC
Mark Greenberg, Center for American Progress
Robert Greenstein, Center on Budget and Policy Priorities
David John, Heritage Foundation
Kilolo Kijakazi, Ford Foundation
Jeff Levey, Citibank
Duncan Lindsay, Ph.D., UCLA School of Public Policy and Social Research
Ellen Marks, RTI
Brandee McHale, Citi Foundation
Benita Melton, Charles Stewart Mott Foundation
Lisa Mensah, Aspen Institute's Initiative on Financial Security
Mike Morris, NCB Development Corporation
Peter Morris, National Congress of American Indians
Dean Melvin Oliver, University of California, Santa Barbara
Eric Rodriguez, National Council of La Raza
Dory Rand, Woodstock Institute
Carl Rist, CFED
Christine Robinson, Stillwater Consulting
Michael Sherraden, Ph.D., Center for Social Development at Washington University in St. Louis
Mike Soto-Class, Center for the New Economy
Irene Skricki, Annie E. Casey Foundation
Gary Stangler, Jim Casey Youth Opportunity Initiative
Gene Steuerle, Peter G. Peterson Foundation
Joe Theissen, Voices for America's Children
Carol Wayman, CFED
Rick Williams, Realize Consulting

Appendix C: The Aspire Act of 2008

For full text, see: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:s3557is.txt.pdf.

Appendix D: Resources for State Policy Advocates

Sargent Shriver National Center on Poverty Law

State Asset Limit Toolkit (SALT): This toolkit is for advocates and policymakers who seek to reform or eliminate state asset limits. Administrative rules, bills, laws, public comments and other advocacy materials as well as official analysis, media coverage and information regarding the implementation and results of asset limit reform relating to asset limit reform are organized by state and by program.

SALT offers sample bills, rules and advocacy material that can be tailored to meet the specific needs of your state as you attempt to eliminate on raise asset limits for TANF, SNAP, Medicaid and General Assistance.

See www.povertylaw.org/advocacy/community-investment/asset-limit-tool-kit/asset-limit-tool-kit-homepage.html.

CFED

Assets & Opportunity Scorecard: The *Assets & Opportunity Scorecard* measures how easy or hard it is for families across the United States to achieve strong financial footing. Divided into six indexes – Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Health Care, Education, and Community Investment & Accountability – the Scorecard ranks the 50 states and the District of Columbia on their performance in 92 outcome and policy measures. The state-level data highlight areas where individuals and families are excelling or lagging in securing a sound financial foundation. The Scorecard also describes what each state government is or is not doing to foster opportunities for its citizens to own and keep assets. The *2009-2010 Scorecard* is available at http://scorecard.cfed.org.

The *Scorecard* includes numerous resources that can be of use to state policy advocates for CDAs:

- ***State pages:*** These handouts for each state and the District of Columbia provide a concise but comprehensive overview of the state's overall asset "health," the quality of its asset-building policies and recommendations for key steps that each state can take.
- ***Policy brief on 529s:*** This brief overview explains why incentives for college savings are important; what states can do; elements of a strong 529 college savings plan policy; and the progress that states have already made in this arena.
- ***Innovative policy brief on CDAs:*** Similar in structure to the aforementioned policy briefs, this overview focuses on policies for which there is no state-level precedent, including universal and progressive CDA legislation.
- ***Resource guides on asset limits and college savings incentives:*** These guides are essentially longer, more detailed versions of the policy briefs.

State Level Children's Savings Policy: A Guide to Crafting Children's Savings Account Legislation: In October 2007, CFED published this guide as a resource for anyone interested in drafting state-level CDA legislation. It is based on a careful review of all state-level CDA legislation that had been either introduced or enacted, as well as CFED's experience in helping states design CDA and other matched-savings legislation.

The guide provides discussion on key issues and design choices, along with corresponding language from state legislation that illustrates these choices. This resource can help state-policy advocates draft either "shell" legislation that calls for most details to be worked out by a knowledgeable agency or committee, or comprehensive legislation that is exhaustive in scope.

See www.cfed.org/imageManager/_documents/SEED_Legislative_Guide_Final.pdf.

Appendix E: Advocacy Strategies to Advance Incentivized 529 College Savings Plans

1. Find Your Allies

Seek support from colleges, universities and other post-secondary education stakeholders. Post-secondary education providers – primarily two- and four-year colleges and universities – and advocates may have a range of their own policy priorities for improving college access, affordability and attainment. The state financial aid agency and the larger financial aid community of practitioners are also important allies. It is critical to get all of these players on board as supportive of your efforts. Finding a champion in the post-secondary education community who will vocally support matched 529s is invaluable. One strategy for bringing these stakeholders on board is to reference a recent report from the College Board,[76] which makes a range of recommendations for improving the federal student aid system, including creating a new kind of college savings accounts.

Engage and recruit influential employers to serve as advocates and/or spokespersons. Private employers can play a key role by convincing legislators that college savings incentives make good business sense. In particular, private-sector employers can collaborate with the public sector to establish employer-sponsored matching programs that can complement or enhance state-administered programs. Additionally, employers serve as another critical access point to enroll state residents and can make the case that such incentive-laden programs are beneficial for employee recruitment and retention.

2. Build Relationships with Policymakers

Advocates should engage a broad range of agencies that can support the concept of incentivized savings for college accounts. Many state bureaucracies, including human services, foster care, workforce, K-12, higher education, banking, commerce/economic development and the comptroller/treasurer, can prove valuable allies. They do so by demonstrating a baseline of participation to promote college savings accounts and to enroll families into a state-sponsored college savings plan, especially with attractive incentives for working families. As early as possible in the advocacy process, stakeholders also should identify, recruit and secure commitments from a state agency that would be well suited to take on the administration of the incentivized 529 program.

In the legislature, finding a champion (or champions) is key. Identifying the right candidate to take the lead is critical; one or two powerful legislators can often move a bill forward nearly single-handedly. Incentivized 529s, and CSAs more broadly, have the advantage of being generally perceived as a non-partisan issue. At the federal and state level, there are examples of many Republican and Democrat pairs cosponsoring children's savings legislation. An argument to use to make the case to conservative policymakers is that incenting savings in 529s represents a market-based strategy that embodies a public-private solution to a widely shared problem of college affordability and attainment.

3. Identify Creative Funding Solutions

The current challenging budgetary climate in many states means that advocates must think creatively about where to find resources to fund a 529 match or other incentive. Many competing priorities and shrinking revenues mean that dedicated funding is more difficult than ever to secure. However, lack of dedicated funding should not deter the opportunity for positive policy change, as the dollars may be appropriated only after a sound framework has been designed. Notwithstanding the current budget situation or appropriations cycle, advocates should generally settle on the desired set of savings incentives, and pursue funding options concurrently or following the enactment of the policy change.

Aside from general revenue, advocates should pursue other potential sources of funding. These might include the 529 account (administrative) fees, unemployment insurance trust fund surplus revenues and other special funds, such as tobacco settlements, oil/gas revenues and unclaimed property revenues.

Another potential strategy is to identify revenue generators that also address structural tax policy shortcomings, such as passing a sales tax on services, implementing an "Amazon law" to ensure that consumers pay taxes on Internet purchases or increasing personal income taxes on upper-income taxpayers. Closing these tax loopholes can be a challenging process and often generates strong opposition – but has the potential to generate substantial amounts of revenue.

Finally, be willing to take one-time or start-up funding to get a program going. Some policymakers may be skeptical that the initiative will work; beginning with a pilot allows advocates to demonstrate success and build the case for future investments. A pilot can be launched with modest funding; for example, just $250,000 was enough to get the program started in Arkansas.

4. Consider a State Commission or Task Force as a First Step

An incremental step that can be an important tactic in gaining support for incentivized 529 policy is to create a study commission or blue ribbon task force to examine the policy proposal. This strategy can raise the visibility of an incentivized 529 program and secure a high-level of support, especially when the concept of a matching grant is relatively new and political support uncertain. In addition, convening a task force or study commission is a good way to keep the issue alive when competing policy priorities or budget difficulties make immediate action unlikely. Experience demonstrates, however, that although a task force or commission can buy you time, even a favorable report to the legislature is no guarantee that a matched 529 policy proposal will receive favorable treatment.

5. Keep Asset Limits in Mind

One of the most effective strategies in helping people build wealth is to remove disincentives to save. For low-income families, some of the most powerful disincentives are asset tests that limit the amount of liquid assets for recipients of public assistance, such as TANF and Medicaid.[77] In working toward legislation to establish incentives for 529 savings, advocates must be sure to add language to exempt the incentivized accounts from asset tests.

Appendix F: Public Opinion Poll on Children's Savings Accounts: Public Support for Children's Savings Accounts

Peter D. Hart Research Associates, Inc.

1724 Connecticut Avenue, N.W.
Washington, D.C. 20009
202-234-5570
202-232-8134 FAX

M E M O R A N D U M

TO:	**The SEED Policy and Practice Initiative**
FROM:	**Peter D. Hart Research Associates, Inc.**
DATE:	**May 25, 2007**
RE:	**Public Support For Children's Savings Accounts**

From March 27 to April 4, 2007, Peter D. Hart Research Associates, Inc., conducted a national survey among 1,037 registered voters, including an oversample of 433 parents of children under age 11 and prospective parents. The margin of error for the full sample is ±3.0 percentage points and is ±4.7 percentage points for the parent oversample.

1 Voters, especially parents, strongly support establishing children's savings accounts for every child. More than two-thirds (69%) of voters and 78% of parents favor children's savings accounts upon exposure to the concept and just 22% of voters and 15% of parents oppose the idea. Broad support exists for children's savings accounts across party affiliation, political ideology, and regions of the country. Voters and parents were read the following brief description of a proposal to establish children's savings accounts, and asked to react.

The federal government would establish a savings account for every child in America at birth and make an initial contribution of $500. Additional, voluntary contributions could be made to the account by the child, family members, or anyone else. The money in the account would be invested, and earnings would grow tax-free. The child could not access the money in the account until after age 18, and could only use the money for three approved uses: paying for higher education or job training, buying a first home, or continuing to save for retirement.

- While more Democrats (75%) and independents (70%) favor the establishment of children's savings accounts, 61% of Republicans also support it.
- Similarly high levels of support exist across political ideologies. Nearly three-quarters (74%) of self-described liberals favor children's savings accounts, as do 72% of moderates and 62% of conservatives.
- Support for children's savings accounts is strong in all regions of the country. More than seven in 10 voters in the Northeast, Midwest, and South favor establishing children's savings accounts, and three in five voters in the West also support the idea.

- Eighteen- to 34-year-olds (78%), voters with a high school degree or less (73%), and African Americans (76%) are more likely to support children's savings accounts than are other subgroups.
- When asked to briefly explain their reaction to children's savings accounts in their own words, supporters mention benefits such as giving kids a head start, helping pay for college, and encouraging savings.

2 **Advocating for children's savings accounts increases voter support for both Republican and Democratic candidates.** Half the voters and parents were provided with both Republican and Democratic candidate statements that included support for the establishment of children's savings accounts. The other half were provided identical statements, except that these did not include any mention of children's savings accounts. Candidates who promote children's savings accounts have higher appeal on both sides of the aisle.

- Voters' opinions of the Republican candidates differ starkly. The Republican who supports accounts has a nine-point advantage among all voters and a 12-point advantage among parents over the Republican candidate who did not mention them. Voters favor Republican candidates who talk about children's savings accounts in the context of leveling the playing field and providing opportunities, especially for low-income Americans.

Republican Statement WITHOUT Accounts (48% Very Appealing)	Republican Statement WITH Accounts (57% Very Appealing)
A Republican who is committed to reducing wasteful government spending and keeping taxes low. He favors cracking down on illegal immigration and strengthening border security. He believes that the best way to grow the economy is to reduce unnecessary regulations on business and pass lawsuit reform.	A Republican who is committed to reducing wasteful government spending and keeping taxes low. He favors cracking down on illegal immigration and strengthening border security. He believes that the best way to grow the economy is to reduce unnecessary regulations on business and pass lawsuit reform. **This candidate also favors tax-free children's savings accounts, which will level the playing field so that more low-income Americans have the opportunity to save and participate in the growing economy.**

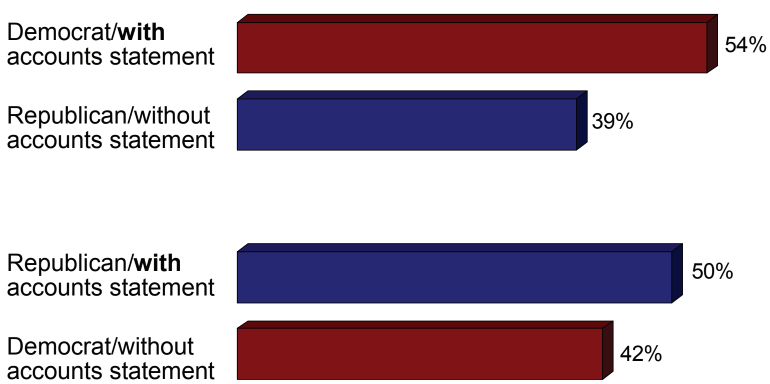
- The Democratic candidate who advocates for children's savings accounts also is more appealing than the Democratic candidate who does not mention accounts, with a five-point advantage among all voters and a nine-point advantage among parents. A Democratic candidate who talks about children's savings accounts in the context of reducing reliance on government programs and encouraging financial independence is appealing to voters.

Democratic Statement WITHOUT Accounts (53% Very Appealing)	Democratic Statement WITH Accounts (58% Very Appealing)
A Democrat who is committed to increasing public investment in areas such as education, health, and energy. He favors repealing the Bush tax cuts for the wealthy to provide government health insurance to the uninsured.	A Democrat who is committed to increasing public investment in areas such as education, health, and energy. He favors repealing the Bush tax cuts for the wealthy in order to provide government health insurance to the uninsured. **This candidate also favors tax-free children's savings accounts, so that more people can achieve financial independence and not rely on government programs.**

- When candidates are matched up head-to-head, with one supporting children's savings accounts and the other not mentioning them in their statement, voters support the candidate who advocates for children's savings accounts, regardless of the candidate's party affiliation. The pro-children's savings account Democrat wins by 15 points over the Republican candidate who does not mention them, and the pro-children's savings account Republican candidate wins by eight points over the Democratic candidate who does not mention them.
    - Among independent voters, the children's savings accounts advocate (whether a Republican or a Democrat) wins by at least 20 points.

Pro-Accounts Candidates Win

Which candidate would you be more likely to support?



3 Voters believe that establishing children's savings accounts will lead to a number of positive outcomes—personally, for their families, and for the nation overall. Nearly half (48%) of voters believe that their family would benefit from the accounts and more than two-thirds (68%) of parents also feel this way.

- Important distinctions exist in terms of who is more likely to think their family would personally benefit from children's savings accounts. Parents of younger children (68%), African Americans (61%), 18- to 34-year-olds (73%), those with a high school degree or less (53%), and voters who make less than $40,000 a year (64%) are more likely to see a personal benefit from the accounts for their families.
- Voters also perceive larger benefits for society as a whole from establishing children's savings accounts. Two-thirds (66%) of voters and nearly three in four (73%) parents feel that the accounts will benefit middle-class families, not only low-income ones.
- Voters and parents perceive the most likely positive outcomes of establishing the accounts relate to college. More than half of voters and even larger proportions of parents believe that the following outcomes are likely as a result of establishing children's savings accounts:
    - Raise young people's expectations and ambitions, so that children—especially those from low-income families—view college as a viable part of their future (55% voters, 63% parents).
    - Strengthen the economy by helping more young people get a college education (55% voters and parents).
    - Help young people graduate from college with less debt (54% voters, 59% parents).
- Other important outcomes that voters perceive as likely to result from children's savings accounts include:
    - Teach young people the value of savings (53% voters, 56% parents).
    - Help parents save for their own retirement (48% voters and parents).
    - Increase America's financial literacy, thereby increasing the national savings rate (46% voters and parents).
- Voters believe that the government has a role in advancing policies that will help individuals and families achieve independence, and that in many areas, the federal government is not currently doing enough.
- More than two-thirds (67%) of voters believe that the federal government is doing too little to educate people about investing and managing their finances, 62% think the government is not doing enough to help families save or invest for the future, and the same

proportion feel that the federal government is doing too little to help more young people afford college.

4 Large majorities of voters and parents identify a number of features as elements that make them favor establishing children's savings accounts, if they were included in a proposal.

- More than two-thirds of voters and parents report that if the following elements were included in a proposal to establish children's savings accounts, they would feel more favorable toward the idea:
  - Allowing private, voluntary after-tax contributions from any source to be made annually to a child's account (70% voters, 76% parents).
  - Up to age 25, limiting the use of funds that have accrued in the account to paying for higher education at an accredited two-year or four-year college, or a legitimate job-training program (68% of voters and parents).
  - Making financial education available to children and parents through schools, community organizations, and other sources (66% voters, 67% parents).
  - Providing an additional deposit of up to $5,000 and dollar-for-dollar matching funds for voluntary contributions from the federal government for children from households earning below the national median income (47% voters, 48% parents).

The survey findings demonstrate high levels of support across political, ideological, demographic, and socio-economic subgroups of the population for the establishment of children's savings accounts. The research sheds light on what voters and parents view as the accounts' potential benefits—both for their families and for the larger society. With this information, recommendations can be drawn regarding what elements of the accounts should be emphasized, both with policymakers and the public, in working to advance policies to establish children's savings accounts.

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MEMORANDUM

TO:	**The SEED Policy And Practice Initiative**
FROM:	**Peter D. Hart Research Associates, Inc.**
DATE:	**September 27, 2007**
RE:	**Messages For Promoting Children's Savings Accounts**

Hart Research Associates conducted a national survey for the SEED Policy and Practice Initiative on the issue of children's savings accounts. The survey was conducted by phone from March 27 to April 4, 2007, among a representative national sample of 801 registered voters, as well as a sample of 433 voters who are parents of children under age 11 or prospective parents. The margin of error for the full sample is ±3.5 percentage points and is ±4.8 percentage points for the parent sample. In addition, six focus groups with voters and opinion leaders were conducted prior to the survey. This memo reviews the key message findings from the research.

Core Message For Children's Savings Accounts

When voters are introduced to the idea of children's savings accounts, their response is generally favorable. More than two-thirds (69%) of voters and 78% of parents surveyed voice support, and just 22% of voters and 15% of parents are opposed to the following proposal:

> **The federal government would establish a savings account for every child in America at birth and make an initial contribution of $500. Additional, voluntary contributions could be made to the account by the child, family members, or anyone else. The money in the account would be invested, and earnings would grow tax-free. The child could not access the money in the account until after age 18, and could only use the money for three approved uses: paying for higher education or job training, buying a first home, or continuing to save for retirement.**

Children's savings accounts have broad support across party affiliation, political ideology, and regions of the country. When asked to explain briefly their reaction to children's savings accounts in their own words, supporters mention benefits such as giving kids a head start, helping pay for college, and encouraging savings.

Peter D. Hart Research Associates, Inc.

Most Americans, however, have not yet been exposed to this idea, so a lot of work remains to convert this potential support into active voter approval. Moreover, the survey and focus groups both reveal that voters' initial support for accounts is rather weak and passive. This early lackluster support is partially because it is not immediately clear what problem these accounts will solve, or what the motivation is behind the proposal.

Creating a sense of urgency about children's savings accounts and building a passionate constituency for them therefore will require advocates to put forth effective education and persuasion efforts. In this section we discuss the elements of a persuasive core message in favor of children's savings accounts, one that connects the policy to perceived problems and is consistent with Americans' values.

Children's savings accounts give all children the opportunity to achieve and contribute. The central element in an effective message frame for accounts is the idea that they will give more children the opportunity to achieve and contribute to our economy, by encouraging saving for the future and more generally by raising their aspirations. Fully 55% of voters strongly agree with this case for accounts.

> **We will make our nation stronger if we level the playing field and help more families plan and save for their children's future. Establishing these accounts will send a message to children in less fortunate families that they are valued, and encourage them to aim high as they think about education and their career. Savings accounts will help give more children the opportunity to achieve and contribute to our economy.**

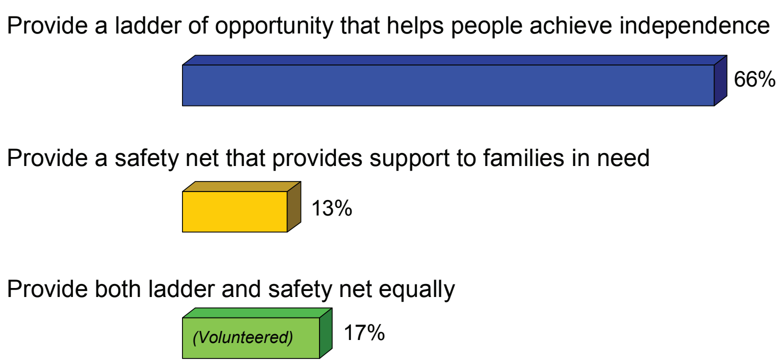
Several important elements contribute to this statement's persuasive power and provide broader message lessons for advocates:

- It emphasizes giving people more *opportunity* to succeed, suggesting that low-income children and families still must make an effort—this is not a government handout. Fully 66% of voters believe that government's priority should be providing "a ladder of opportunity that helps people achieve independence," more than "a safety net" to support families in need (just 13%).

- It focuses attention on changing the life trajectory of real children and families, not more abstract goals such as "reducing inequality." This makes the benefits more real to the public.
- It emphasizes the value to all of society, not only to account holders. The statement begins with idea of making our nation stronger, and concludes with contributing to the economy.

Role Of Government

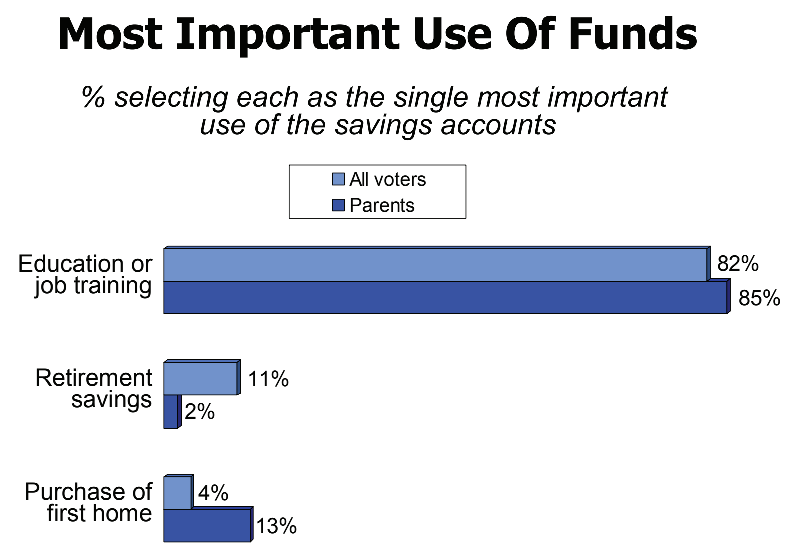
Perceived More Important Role for Government



The strength of opportunity language also is evident when we test more specific pro-accounts messages. One of the strongest responses, 60% of voters rate this statement as convincing: "These savings accounts will give every child in America the opportunity to achieve the American dream. Every child can grow his or her own nest egg so they have an opportunity to go to college, buy a home, or continue to save for their future."

Children's savings accounts will help young people go to college or get job training. The second element in an effective message is a strong emphasis on accounts as part of the solution to the college affordability crisis. Americans are increasingly aware of and concerned about the high cost of college education, and students' substantial debt burden has become a very powerful symbol of this problem. This statement generates very strong agreement among voters (note the emphasis on debt):

Paying for college is a growing challenge for American families, with many parents taking out loans or raiding their own retirement savings, and students graduating with crushing debt burdens. Savings accounts will reduce financial pressures on families and reduce debt for young adults. And they will allow more young people to go to college or get job training, which strengthens American competitiveness in a global economy.



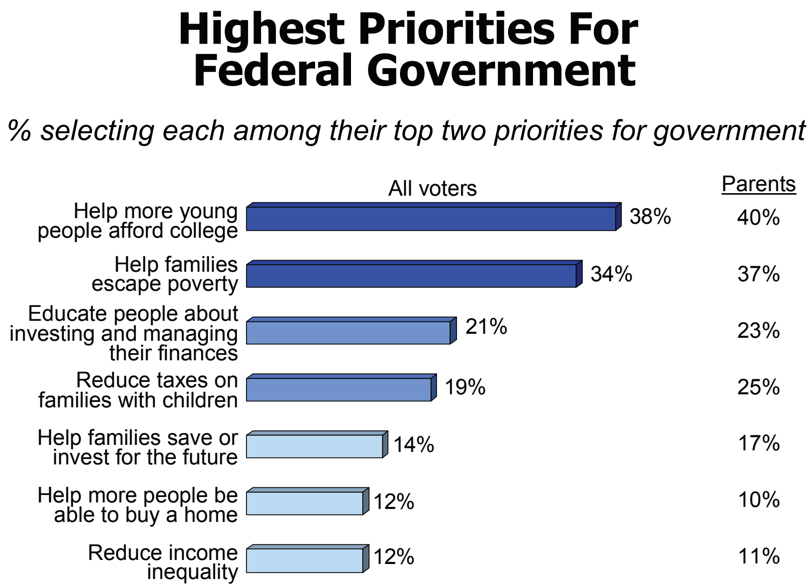
This also means that all possible uses of the accounts are not equally important when advocates are promoting accounts. Overwhelmingly, the public believes that the funds in accounts will be used—and *should* be used—mainly to pay for post-secondary education or job training. Fully 82% of voters feel that this is the most important purpose of the accounts, compared with 11% for retirement savings and 4% for home purchase. Voters do not object to permitting use of the funds for these purposes, but they see these uses as clearly secondary. Retirement is simply too distant an issue for a newborn child to be compelling (and focusing on retirement leads some voters to see accounts as a "backdoor" attempt to privatize Social Security.) While homeownership is not as distant chronologically, voters are inclined to see this as a personal responsibility and consider it a much lower priority for government action than improving access to education and training (or improving retirement security).

> **"I can buy using the money for higher education. But you know, using it to buy a first home or retirement, I don't quite understand that."**
>
> **—Focus Group Participant**

At the same time, advocates do not want to present accounts solely as a mechanism for improving access to higher education. First, that is too narrow a focus given the structure and purpose of accounts. Also, there are more direct ways for policymakers to address this problem, such as Pell Grants or more favorable loan terms. Voters understand this as well: one of the most convincing arguments against savings accounts reads "If the goal is to make college more affordable for all young people, we should spend more on financial aid and other programs that directly help people who are going to college." However, contributing to helping families pay for higher education can be a strong selling point for savings accounts, as long as this is not the sole selling point.

Financial education is popular, but the savings crisis and "financial literacy" should not be your central story. Voters respond favorably to the financial education component of savings plans, and they especially think that teaching young people the value of saving is important. In promoting plans, advocates certainly should highlight these features, which also serve to highlight the idea that accounts are about cultivating independence rather than providing a government handout.

The survey data reveal, however, that building a core message around the idea of addressing the national "savings crisis" is not as compelling as an emphasis on opportunity and a level playing field. There is just not the same urgency or moral power to addressing the savings problem. Voters indicate in the survey that helping families save for the future is a much lower priority for government action than either helping more young people afford college or helping families to escape poverty (see graph).



Similarly, when we measure reaction to seven specific pro-accounts statements, the three that voters consider *least* compelling are the ones that deal with improving the national savings rate, instilling the value of saving, and improving financial literacy. These are laudatory goals, but not as urgent and compelling as the others. (Please note also that these recommendations focus on appealing to the general public. There may well be specific audiences, such as business leaders or policymakers, for whom the financial education component of the plans is critically important.)

Addressing Doubts About Children's Savings Accounts.

The focus groups and survey findings identify several factors that can undermine public support for savings accounts. In a sense, accounts are "squeezed" from both left and right, with both liberals and conservatives expressing differing concerns. Fundamentally, these boil down to three main ideas: 1) there are better ways to spend the money, 2) it is just too expensive, and 3) it will not work. Here we address strategies for responding to such concerns or, even better, presenting your case for savings accounts in a way that anticipates the concerns and protects or "inoculates" you against them.

Concern #1: It is better to spend the money on programs that help children earlier and more directly.

This concern comes up frequently in the focus group sessions. One of the most convincing arguments against accounts tested in the survey reads: "We should be spending the limited resources we have on programs that provide direct services to children—such as decreasing class sizes, funding Head Start, and providing health insurance—instead of these accounts." This concern is of greatest concern to liberals and Democrats, voters who would otherwise be inclined to rally around a proposal designed to benefit low-income children.

Fortunately, the survey results show that advocates have an effective rejoinder when this concern is raised. Voters were asked which of these two statements they agreed with more:

> **OPPONENTS** say that we should be spending the limited resources we have on programs that reach children as early as possible, such as reducing class size in public schools or funding Head Start, rather than accounts that will not help people until age eighteen or later.
>
> **SUPPORTERS** reply that a system of savings accounts and financial education does benefit children from a young age, because it teaches them the importance of saving. And the accounts will encourage many families and children who might never have considered college to strive for a better future.

By an impressive two-to-one margin (61% to 31%), voters are more persuaded by the pro-accounts statement. The key element is the idea of *raising young people's expectations*. Voters can see how the process of a family establishing and funding an account, with the child's participation, could help nourish a broader sense of possibilities. Specifically, some young people may set their sights on attending college who might not otherwise have even considered that a real option.

In this sense, then, savings accounts are a real form of "early intervention," which many voters (especially liberals) value. And by using this message, the idea of accounts no longer is just about money or savings—it is about transforming lives. Fully 57% of voters say that this statement is a convincing reason to support savings accounts:

> **Forty percent of children, and more than 50% of minority children, grow up in families with no savings. Establishing savings accounts at birth will raise the hope and expectations of young people living in poverty by leveling the playing field and making things like college and homeownership achievable goals.**

Concern #2: It is too expensive—we just cannot afford it.

Probably the most frequently voiced objection in focus groups is the program's price tag. Many voters worry that the government cannot afford to create such an ambitious-sounding program, especially when the budget is already in deficit. The most convincing criticism of accounts tested in the survey is that "This plan will increase the federal budget deficit by $38 billion over the next 10 years, which hurts everyone—we will pay for this later in the form of higher taxes or fewer services."

At one level, the best answer to a cost-based critique is simply to demonstrate the value of the program. If the program serves an important public goal, then the price tag becomes acceptable. So to some extent, all the messages recommended here serve as a response to this critique.

However, the survey also tests a specific response that focuses on the payoff to taxpayers from making this investment. Voters are asked which of these two statements they agree with more:

> **OPPONENTS** say that these accounts sound like a nice idea, but with a $300-billion federal budget deficit, America just cannot afford to start setting up free savings accounts for every single child born in this country.
>
> **SUPPORTERS** reply that the public investment in accounts will largely pay for itself in the long run, by encouraging more savings and by helping many low-income children to improve their education and become self-sufficient adults.

Impressively, just 32% of voters accept the criticism while 62% agree more with the statement of support. The statement respects the concern about taxpayers' expenditure, but points out that they will receive a substantial payback from this investment.

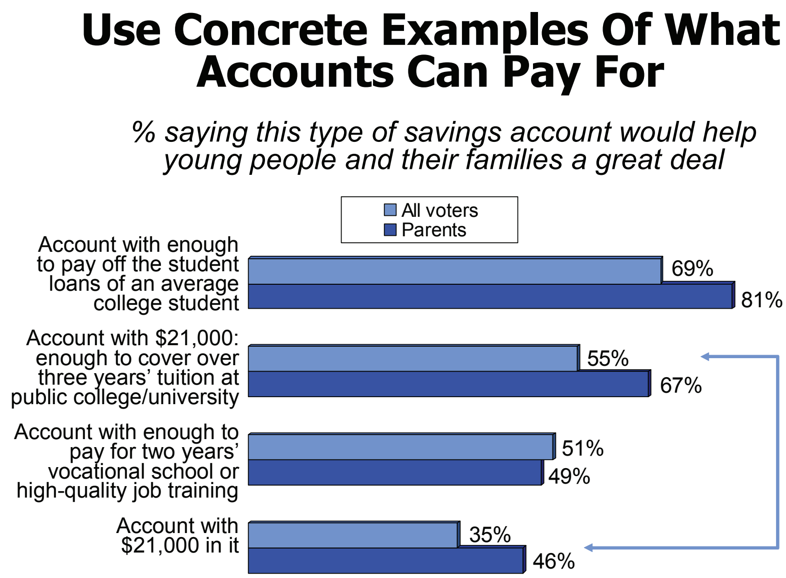
Half the respondents hear the same criticism, but paired with a different pro-accounts statement that emphasizes what a small portion of the federal budget the program would represent: "the accounts are not really very expensive—costing less than two-tenths of one percent of federal spending—considering the long-term benefits to families and the nation." Overall, voters side with the accounts argument by about the same margin. Analysis reveals, however, that the return-on-investment message is equally persuasive to Democrats, independents, and Republicans, while the low-cost message is much weaker with Republicans (but very strong with Democrats). Our recommendation would be to use the message with broader appeal.

Concern #3: It will not work: poor people will not save enough money to make a difference.

This concern crosses all partisan and ideological lines. Many people worry that low-income families simply will not save enough money in these accounts—even with a federal match—to make a real difference in young people's lives. This is probably the greatest challenge that advocates face—if the policy will not really help people, then of course it is not worth whatever the cost may be.

> **"It sounds good, but this program will not work. Too many people do not understand investing."**
>
> **—Focus Group Participant**

Anticipating this concern, we tested a message in the focus groups that highlighted how much money would be in a typical account: "Assuming steady voluntary contributions of $250 per year, a typical low-income child would have over $21,000 in his or her tax-free children's savings account by age 18." The message, however, fell flat: participants were not at all impressed by the $21,000 figure, comparing it to the four-year cost of a private college and concluding it would be insignificant.



In the survey we conducted an experiment to see whether telling people what this $21,000 could buy would make a difference. And the difference was remarkable. Whereas only 35% of voters think that a $21,000 account would help young people and their families a great deal, the proportion jumps by 20 points (55%) when we inform them that this would be enough to cover more than three years' tuition at a public college or university. And voters were even more impressed by the idea that a typical account would contain enough to pay off the college loans of an average student (69%).

So the lesson (again) is: do not just talk about dollars, talk specifically about how an account could open new possibilities and transform lives.

The research also indicates that skepticism about the efficacy of accounts can be addressed by real-world evidence that they work. The single-most convincing pro-account statement tested in the survey highlights the British experience: "Recently in England, a similar proposal was enacted. In just two years, two point five million accounts have been opened and the percentage of families who report that they are actively saving for their children's future doubled" (65% convincing). While some focus group participants doubt whether lessons learned in England are relevant to the United States, this evidence impresses others. Individual "case studies" of young people enrolled in U.S. pilot programs also can be compelling. The public always is somewhat skeptical of new, untested ideas. Advocates should try to move savings accounts out of that category, and make the case that this already is a reality, and one that works.

Additional Message Recommendations

Three other important message lessons emerged from the focus group and survey research:

- Participants initially respond negatively to the idea that the original $500 be paid back at age 30. It makes no sense to them at all. However, when the payback is framed as returning the original deposit, so as to sustain these accounts for future generations, the idea is viewed much more favorably. It is important to frame this provision as "giving back to the next generation" as opposed to "paying back the government."
- Messages about current "asset subsidies'" inequity fall uniformly flat. For example, this message is one of the least well received in the focus groups: "the federal government spends approximately $300 billion a year helping middle- and upper-income families save and accumulate wealth through asset-development programs, such as IRAs, 401(k)s, and the home mortgage interest deduction, and by establishing these accounts low-income families also will be able to benefit from such programs." Similarly, voters are not persuaded by the notion that "The distribution of wealth among American families is extremely unequal and getting worse. Meanwhile, the federal government is helping middle-class and wealthy Americans build a nest egg with programs like IRAs, 401(k)s, and the home mortgage interest deduction." Variations on the asset subsidy message fail because they rely on knowledge that most voters do not have, tell middle-class people that we think they are "rich," or sound like attacks on tax breaks that people use and value (or all three).
- Making the accounts universal rather than mean-tested is very important. Fully 66% of voters say the accounts should be for all children, while just 24% favor limiting them to families with incomes less than $40,000 to keep the total cost of the program down. The idea that all American children can participate is very appealing, while drawing eligibility distinctions turns savings accounts into a "poor people's program."

Appendix H: Descriptions of Incentivized 529 Programs

Arkansas' Aspiring Scholars Matching Grant Program

Summary: The Aspiring Scholars Matching Grant program was authorized under Act 597 of 2007. The primary purpose of the program is to provide an incentive, in the form of a savings match, for low- and moderate-income families to save for their children's college education using the Arkansas Gift College Investment Plan (the state's 529 plan).

Accountholders may earn up to $500 in matching funds per year for up to five years. Lower-income accountholders earn $2 for every $1 they save; moderate-income accountholders receive a dollar-for-dollar match. The program began with annual funding of $235,000, generated by the annual fees collected by the state for the administration of its 529 plan. The program began with annual funding of $235,000, generated by the annual fees collected by the state for the administration of its 529 plan.

Currently, the Aspiring Scholars pilot is in its second year, with 576 accountholders enrolled – up from 469 accountholders in the first year of operation. Those who opened accounts in 2008 received an average matching grant of $422, taking almost full advantage of the $500 available.

Eligibility: Families with incomes between $0 and $30,000 are eligible for the 2:1 match on contributions. Households with income between $30,000 and $60,000 are eligible for the 1:1 match. The maximum match for both is $500. Households are only eligible to receive the match for a maximum of five years.

Tax implications: Arkansas allows a state income tax deduction on contributions up to $5,000 for a single household and $10,000 for a married household.

Maximums/minimums: Without direct deposit, there is a $25 initial and subsequent minimum investment. With direct deposit, households can open an account with a $10 initial deposit, and a $10 monthly commitment. Contributions can be made to the account, up to a lifetime maximum of $366,000.

Fees: A $20 account maintenance fee is waived for Arkansas residents. Additionally, the account is levied a .75% account management fee.

Investment options: Arkansas' Gift College Investment Plan offers nine investment options: three age-based, three blended and one option each of capital preservation, equity and fixed income.

Other details: When creating the matched savings portion of the plan, advocates decided to leave most pilot program design details, such as family income eligibility and match rates, out of the authorizing legislation. Most of these details were delegated to the committee that manages the state's 529 plan. This strategy streamlined legislative consideration and facilitated program implementation by providing rulemaking flexibility. The committee has already changed certain design details, such as application deadlines, to facilitate implementation.

Colorado's CollegeInvest Matching Grant Program

Summary: In 2005, CollegeInvest, a not-for-profit division of the Colorado Department of Higher Education responsible for administering the state's 529 program, introduced the CollegeInvest Matching Grant Program. The Matching Grant program provides a one-to-one match, up to $500 per account annually for a maximum of five consecutive years, to qualifying low-and middle-income families who open a 529 college savings account. Matches are made on contributions from the previous calendar year.

Matching dollars go into a separate Matching Grant Account, which is owned by CollegeInvest and set up in the beneficiary's name. CollegeInvest will only make payments from a Matching Grant Account to an institution of higher education in an amount that is equal to a qualified withdrawal from the participant's owned CollegeInvest Account for the beneficiary. Matching funds are distributed on a first-come-first-serve basis, and are subject to availability.

Eligibility: To be eligible, families must have incomes at or below 200% of the FPL based on family size, not to exceed the state median family income. Beneficiary must be no older than 12 years of age when the account is opened. Households are only eligible to receive the match for a maximum five years.

Tax implications: Earnings are exempt from state and federal taxes when used to pay qualified higher education expenses, including tuition, fees, books, supplies and equipment. Contributions are fully deductible up to the contributor's adjusted gross income; rollover contributions are not eligible for the deduction.

Maximums/minimums: Initial contribution must be at least $25. Subsequent contributions must be at least $15. Accepts contributions until all Colorado account balances for the same beneficiary reach $280,000.

Fees: No enrollment fee. Account maintenance fees are waived for Colorado residents. An annual program management fee of .75% is assessed on each account.

Investment options: CollegeInvest offers three distinct plans, each with its own variety of options ranging from conservative to higher-risk. The Stable Value Plus College Savings Plan, backed by the Travelers Insurance Company, is a fixed income fund designed to protect your principal investment, under a funding agreement that declares a new interest rate each year. The Direct Portfolio College Savings Plan, managed by The Vanguard Group and Upromise Investment, Inc., offers a combination of equity, fixed income and money market options. The Scholars Choice College Savings Program, managed by CAM North America, LLC, an affiliate of Legg Mason Inc., offers a combination of equity, fixed income and money market options available only through financial advisors.

Other details: If the participant makes a non-qualified withdrawal from the CollegeInvest Account(s), CollegeInvest will reduce the amount in the Matching Grant Account by an amount equal to the Participant's non-qualified withdrawal plus any applicable earnings on that amount. If there is no qualified withdrawal from the Matching Grant Account within four years after the beneficiary is eligible for such withdrawal (typically 18 years of age), CollegeInvest will revoke the total amount of the value of the Matching Grant Account. No withdrawals will be allowed from a Matching Grant Account after six years after the Beneficiary is eligible for such withdrawal, regardless of whether qualified withdrawals have been made during that period, and any funds remaining in the Matching Grant Account after that period will be revoked.

Indiana's Tax-Credit CollegeChoice 529 Plan

Summary: UPromise Investments took over the management of Indiana's CollegeChoice 529 Direct Savings Plan from JP Morgan in September 2008. This program is governed by the Indiana Education Savings Authority and offers, to in-state taxpayers, a tax credit on plan contributions worth 20% of the first $5,000 contributed (or $1,000 maximum per year). For now, this includes rollover contributions; however, as of January 1, 2010, money rolled over from another state's 529 plan no longer entitles a family to receipt of the credit.

Eligibility: All Indiana residents, regardless of income, are eligible to receive this tax credit on plan contributions. There is no time limit on eligibility for the credit; households can receive it until the account is rolled over, closed or changes beneficiaries.

Tax implications: An Indiana resident's state income tax burden can be reduced up to $1,000 each year through participation in this program. Should any unqualified withdrawals be made from the accounts, the relevant taxpayer will repay the credit (20% on contributions up to $5,000) on their next tax return.

Maximums/minimums: Accepts contributions until all Indiana account balances for the same beneficiary reach $298,770.

Fees: Accounts in Indiana's plan are subject to a $20 annual fee, which is waived for Indiana residents and those accounts with more than $25,000. Program management fees vary between .30% and .45%, based on the investment portfolios chosen.

Investment options: Participants can choose between age-based or static investment options. There are six portfolios of age-based options that become more conservative as the beneficiary child ages. Additionally, six static investment options, managed by investment professionals, are offered in the following categories with varying levels of risk: international, bond, money market, short term bond index, U.S. equity index and inflation-protected.

Other details: Taxpayers must complete two forms with their tax return in order to claim the credit: IN-529 and Schedule 2. The account must remain open for at least one year after a participant receives a state tax credit; if not, the tax credit must be repaid to the state.

Kansas Investments Developing Scholars (KIDS) Matching Grant Program

Summary: The Kansas Investments Developing Scholars (KIDS) matching grant program began on a pilot basis in 2006 and the state legislature made it a permanent element of Kansas' Learning Quest Education Savings Program in 2009. The program is limited to 300 participants from each of Kansas' four congressional districts, or 1,200 participants statewide. That cap will be reviewed each year and is subject to appropriations.

Accountholders may earn up to $600 in matching funds per year. This KIDS matching grant program is funded by tax revenues, as opposed to fees paid by other 529 investors.

Eligibility: Families with incomes below 200 percent of the federal poverty level are eligible for the 1:1 match on contributions. The maximum match is $600. There is no maximum regarding the number of years that a household is eligible for the match as long as, each year, households meet the income eligibility requirements and reapply for the program.

Tax implications: Kansas allows a state income tax deduction on contributions up to $3,000 for a single household and $6,000 for a married household. Kansas residents who use out-of-state 529 plans are also eligible for this deduction.

Maximums/minimums: To participate in the KIDS matching grant program, Kansas residents must first open a Learning Quest Account, which requires an initial investment of $250 or a direct deposit commitment of $25 per month. Contributions can be made to the account, up to a lifetime maximum of $300,000.

Fees: In 2008, the $20 account fee was waived for all participants in Kansas 529 plans. Prior to that, the $20 fee was only waived for Kansas residents and those with account balances over $25,000.

Investment options: Kansas' Learning Quest Education Savings Program offers three investment options: Learning Quest, Learning Quest Advisor, and Schwab 529.

Louisiana's Start Plan

Summary: The Louisiana START 529 plan is managed by the Louisiana Office of Student Financial Assistance, under the direction of the Louisiana Tuition Trust Authority (LATTA). LATTA is a public body composed of representatives from all of the state's education governing boards, and includes the State Treasurer and one member from each house of the Louisiana Legislature.

Revenue generated from general funds is used to match deposits made by low-income account holders into the state's 529 college savings plan. Deposit matches are called "Earnings Enhancements." The current value of an account may be used to pay for qualified higher education expenses at any accredited college or university (in or out-of-state) and at in-state technical colleges and state-approved proprietary schools.

Eligibility: Match rate determined by AGI – ranges from a high of 14% of contributions for those families with an AGI up to $29,999 to a low of 2% for incomes of $100,000 and above. The income parameters as of 2009 are:

- $0-$29,999: 14%
- $30,000- $44,999: 12%
- $45,000- $59,999: 9%
- $60,000- $74,999: 6%
- $75,000- $99,999: 4%
- $100,000+: 2%

Households remain eligible for the match until they reach the maximum account balance, the account is rolled over or it changes beneficiaries.

Tax implications: Earnings are exempt from state and federal taxes when used to pay qualified higher education expenses, including tuition, room, board, books and supplies. Deposits may be excluded from taxable income reported on the account owner's state tax return, up to $2,400 per year, per account. Unused exclusions may be carried forward to subsequent tax years.

Maximums/minimums: There is not limitation on the frequency of deposits and the initial and subsequent minimum deposit amounts are both $10.

Fees: Unlike many other state-sponsored 529 college savings plans, which have become targets of industry criticism and governmental review, Louisiana's 529 plan does not charge fees for its accountholders.65 The program includes "no enrollment fees, no account maintenance fees, no administrative fees, and no broker commissions."66 One hundred percent of all deposits into the START plan go toward earning interest.

Investment options: Six investment options, which range from very conservative to very aggressive. Deposits into the fixed earnings portion of any investment option are guaranteed by the State.

Other details: As of the end of 2004, START assets totaled more than $63 million, including $44 million in depositor contributions and earned interest, $17 million in Vanguard investments (mutual funds) and more than 1.6 million in Earnings Enhancements and interest on the enhancements.67

See www.startsaving.la.gov for details on the Louisiana plan. For sample legislation establishing Louisiana's START program and its corresponding progressive savings matches, see www.legis.state.la.us/lss/lss.asp?folder=143.

Maine's NextGen® Plan

Summary: Maine's NextGen® Plan is administered through the Office of the State Treasurer and the Finance Authority of Maine. The Maine State Treasurer and the Maine Advisory Committee on College Savings oversee the investments.

Revenue generated from general funds is used to match deposits made by low-income account holders into the state's 529 college savings plan. All Maine residents born after January 1, 2006, are eligible to receive a $50 First Step Grant. No other contribution is required to open the account. Any new NextGen® account may apply to receive an initial matching grant of $200. Further, any existing NextGen® account receiving contributions of at least $50 may apply to receive an annual matching grant of 50% of all amounts contributed, up to a maximum grant for any one beneficiary of $200. Assets in a NextGen® account can be used for eligible expenses at accredited postsecondary schools in the U.S., including graduate school and accredited trade schools.

In December 2007, the Harold Alfond Foundation announced the Alfond College Challenge, which will provide a $500 grant to be invested in a NextGen® Account for all Maine newborns. The first phase of the initiative began on January 1, 2008, in two cities in Maine, and was taken statewide on January 1, 2009.

Eligibility: The family's AGI must be $75,000 or less for the most recently completed tax year; eligible households receive a 50% match on deposits, up to $200 per year. Either the participant or the beneficiary must be a Maine resident. Only one account per beneficiary is eligible to receive a matching grant. Accounts must be opened within a year of the child's birth to receive the First Step Grant.

Tax implications: Earnings grow free from federal income tax when funds are withdrawn for qualified higher education expenses. For Maine residents, earnings grow state tax exempt if used for qualified expenses. Contributions are not deductible for federal income tax purposes, but are deductible (up to $250 per beneficiary) on state income taxes for those households with an AGI less than $75,000.

Maximums/minimums: There is no minimum deposit required to open an account. Any one beneficiary can accumulate up to $340,000 in all accounts.

Fees: If either the NextGen® participant or beneficiary is a Maine resident, an amount approximately equal to the annual Maine Administration Fee (15 basis points or 0.15 of 1%) of the net asset value of the account paid will be automatically rebated to the accountholder.68 Further, the annual account maintenance fee is waived for Maine residents.

Other details: See www.nextgenplan.com for more details on Maine's NextGen® Plan.

Michigan's Education Savings Program (MESP)

Summary: The Michigan Education Savings Plan (MESP) is administered through the Michigan Department of the Treasury. The Michigan Department of Treasury selected TFI (a subsidiary of TIAA) to serve as program manager of MESP.

Section 933 of Michigan Public Act 327 of 2004 provides funding for the matching grant program pursuant to which an account owner can apply to the State for a matching grant (the "State Matching Grant") on MESP contributions, subject to certain eligibility criteria. For qualified applicants, the State provides a matching grant of $1 for each $3 contributed to a MESP account up to a lifetime maximum matching grant of $200 per eligible beneficiary.

Eligibility: Each matching grant is only available during the first year that the beneficiary is enrolled in MESP, and is based on the following eligibility requirements: beneficiary must reside in a household with a family income of $80,000 or less; beneficiary must be 6 years old or younger when the account is opened; and beneficiary must be a resident of Michigan.

Tax implications: The amount contributed each year to an account, less the amount of any qualified withdrawals from the accounts during that tax year, can be deducted from the Michigan adjusted gross income up to a maximum of $10,000 for a joint return and $5,000 for a single return. Rollovers from another qualified tuition program into MESP are not eligible for the Michigan income tax deduction. Account earnings may grow on both a federal and Michigan income tax-deferred basis until the beneficiary is ready to go to college. Earnings on any distributions used to pay for qualified higher education expenses will be free from federal and Michigan income tax.

Maximums/minimums: An account may be opened a minimum initial investment of $25, and the minimum investments thereafter are also $25. However, should participants elect direct deposit, they must meet a $15 minimum monthly commitment. There is no annual deposit limit, but there is an overall maximum account balance limit of $235,000 which applies to all accounts opened for a beneficiary (including amounts paid into the Michigan Education Trust program, a state-established prepaid program).

Fees: For the Managed Allocation Option and the 100 Percent Equity Option, an annual asset-based management fee will be paid to TIAA-CREF to cover the cost of investment management and administrative services. This fee is computed at an annual rate of 0.65% of the average daily net assets of MESP. No other fees or charges will be applied to an account.

Investment options: MESP offers five investment choices: one age-based, three fixed multi-fund options and a principal protection option. These choices vary in their investment strategy and degree of risk. For a description of these investment options, see www.misaves.com/options.html.

Other details: For general information, see www.misaves.com. Detailed program description available at www.misaves.com/pdf/mi_discl.pdf.

Minnesota's College Savings Plans

Summary: Minnesota's plan is very similar to the plan offered in Michigan. The program provides an annual matching grant to eligible in-state families contributing at least $200 to the plan during a calendar year. Maximum matching grants are $300 per year, and the match rate is linked to AGI.

Revenue generated from general funds is used to match deposits made by low-income account holders into the state's 529 college savings plan.

Eligibility: To qualify for a matching grant, the following requirements must be met.

Application: The account owner must apply for a matching grant by May 1 of the year immediately after the calendar year in which contributions were made; a minimum of $200 must have been contributed to the account during the calendar year ending on December 31.

Residency: If beneficiary is younger than age 25, the parent(s) or legal guardian(s) must have filed a Minnesota income tax return as a Minnesota resident and claimed the beneficiary as a dependent on their federal income tax return as a Minnesota resident for the calendar year in which contributions were made. If beneficiary is age 25 or older, the beneficiary and spouse, if any, must have filed a Minnesota and a federal income tax return as a Minnesota resident for the calendar year in which contributions were made.

Family income: The household AGI of the beneficiary must be $80,000 or less for the year in which contributions were made. If the beneficiary is younger than age 25, family income is defined as the combined AGI of the beneficiary's parent(s) or legal guardian(s), as reported on their federal income tax return for the calendar year in which contributions were made. If the beneficiary's parents are divorced, the income of the parent claiming the beneficiary as a dependent on his or her federal income tax return and the income of that parent's spouse, if any, is used to determine family income. If the beneficiary is age 25 or older, family income is the combined adjusted gross income, as reported on their federal income tax return, of the beneficiary and his or her spouse, if any, for the calendar year in which contributions were made. If the beneficiary's family income is $50,000 or less, the matching grant is equal to 15 percent of the contributions, up to a maximum of $400. If the beneficiary's family income is more than $50,000, but not more than $80,000, the matching grant is equal to 5% of the contributions, up to a maximum of $400. If multiple Accounts are established for the same beneficiary, the maximum matching grant per year per beneficiary cannot exceed $400.

Tax implications: Qualified withdrawals are exempt from Federal and Minnesota state income taxes.

Maximums/minimums: An account may be opened a minimum initial investment of $25, and participants must meet a $15 minimum monthly commitment. There is no annual deposit limit, but there is an overall maximum account balance limit of $235,000

Fees: There is an annual asset-based management fee of .65% of the average daily net assets in the plan (excluding assets held in the Guaranteed Option) that covers the plan's investment and administrative services. There are no commissions or application fees.

Investment options: The Minnesota College Savings Plan offers three investment choices: a managed allocation, guaranteed and a 100% equity option. These choices vary in their investment strategy and degree of risk. For a description of these investment options, see www.mnsaves.org/invest_opt.html.

Other details: See www.mnsaves.org.

North Dakota's College Save

Summary: North Dakota's matched 529 college savings program provides a one-time match on contributions up to $300 for those in-state residents that meet the income eligibility thresholds. Because of funding limitations, only the first 1,000 eligible applicants per year will receive the match.

Eligibility: Households with AGIs below $40,000 single or $80,000 joint are eligible for a one-time match on contributions of up to $300 per each beneficiary. Households with AGIs below $20,000 single or $40,000 joint are eligible for the match for an additional two years.

Tax implications: Contributions are deductible for North Dakota state income tax, up to $5,000 for an individual and $10,000 for a married couple.

Maximums/minimums: An account may be opened a minimum initial investment of $25, and $25 is the minimum subsequent contribution. As much as $13,000 per designated beneficiary each year (or $26,000 for married couples filing jointly) can be contributed to a College SAVE 529 plan without incurring gift-tax consequences. The maximum lifetime balance for each beneficiary is $269,000.

Fees: There is an annual asset-based management fee of .85% of the average daily net assets in the plan (excluding assets held in the Guaranteed Option) that covers the plan's investment and administrative services. A $20 account maintenance fee is waived for North Dakota residents.

Investment options: The College SAVE Plan offers nine investment choices: three age-based options and six individual portfolios managed by Vanguard. These choices vary in their investment strategy and degree of risk.

Other details: Matured account assets can be used at any accredited public or private college in the country. Additional information on the College SAVE Plan can be found at https://collegesave4u.s.upromise.com.

Rhode Island's CollegeBoundfund

Summary: Rhode Island's CollegeBoundfund is a state-sponsored college savings plan managed by Alliance Capital. The matching grant program is funded by fees generated from national sales of the CollegeBoundfund. Under CollegeBoundfund rules and regulations, the state may use account maintenance fees paid by non-Rhode Island residents and a portion of out-of-state direct sales fees for the development of CollegeBoundfundgrants and scholarships to benefit Rhode Island families.

Eligibility: A 2:1 match is offered to state-resident families with AGI below $71,000. Families with AGI between $71,000 and $86,000 are eligible for a 1:1 match, with a $500 annual maximum. To be eligible for the match, the account must be opened before the child turns 11 and matching grants are only available for a period of five consecutive years.

Tax implications: Qualified withdrawals are exempt from federal and Rhode Island income taxes.

Maximums/minimums: The initial investment for participation in the CollegeBoundfund is $250, and there is a $50 monthly commitment. Contributions for any one beneficiary are capped at $365,000.

Investment options: CollegeBoundfund offers a choice of 15 investment options – two Age-Based and three Fixed Allocation Education Strategies, a Stable Value Portfolio and Individual Portfolios featuring nine AllianceBernstein mutual funds.

Other details: See www.riheaa.org/saving/fiveten/.

Utah's Matched 529 Pilot Program

Summary: In 2004, Utah launched a pilot program within the Utah Educational Savings Plan (UESP), the state's 529 program. The Fast Forward Matching Program, which became official on January 1, 2009, provides a one-to-one match up to $300 per year for up to four years, to Utah residents who meet income eligibility requirements, open an account, and save at least $25 per month.

Once the beneficiary is enrolled in college, funds are paid directly to the higher education institution. Since UESP is a "direct-sold" 529 plan – meaning that account setup and contributions can be performed by contracting directly with UESP and do not require a financial advisor – administrative costs are relatively low.

The parameters for Utah's matching grant program are so stringent that only 19 families have qualified for the benefit in the first three months of 2009. UESP has budgeted $50,000 for the Fast Forward program for FY 2010. If each participant contributes the maximum of $400, the budget will accommodate 125 children.

Eligibility: To be eligible, families must have incomes at or below 200% of the FPL, and/or must be eligible to receive TANF benefits, and they must save at least $25 per month. Beneficiary is eligible for the match for up to four straight years or until the account is closed, rolled over or changes beneficiaries. The account must be established before the beneficiary's 19th birthday.

Additionally, all Utah families, regardless of income are eligible to receive a 5% tax credit on 529 plan contributions up to $1,740 and $3,480 (for single and married households, respectively). This equates to a savings of up to $87 per year for single filers or $174 for joint filers. There is no time limit on a household's eligibility for the tax credit.

Tax implications: Earnings are exempt from state and federal taxes when used to pay qualified higher education expenses, including tuition, room, board, books and supplies. Utah taxpayers may deduct contributions of up to $1,560 ($3,120 if filing jointly) per beneficiary. All contributors may gift of up to $60,000 ($120,000 if filing jointly) at one time without adverse gift tax consequences, as long as they elect to prorate the gift over five years.

Maximums/minimums: Initial contribution of at least $25; minimum monthly contribution of $25. Up to $346,500 can be contributed in all UESP accounts on behalf of one beneficiary.

Fees: No enrollment fee. No maintenance fees for Utah residents. Non-Utah residents are charged an account maintenance fee of $3 for every $1,000 in the account, up to $15 annually. Utah residents that select the Utah Public Treasurers Investment Fund (PTIF) option are not charged an account management fee. However, all other selections incur a .22% annualized administrative fee.

Investment options: Eleven in total – five age-based investment options and six static investment options are offered. Investment options utilize a variety of funds managed by the Vanguard Group and the PTIF.

Other details: With the exception of custodial accounts established with UGMA/UTMA funds, the account owner remains in control of the account even after the beneficiary becomes an adult. The beneficiary cannot initiate, approve, or otherwise authorize any transactions or changes on the account. If the beneficiary does not attend an eligible educational institution or if excess funds remain after the beneficiary finishes their higher education, the account owner can change the beneficiary or transfer on the account to a member of the family of the preceding beneficiary. Remaining funds may also be withdrawn and used for non-qualified expenses, but the earnings will be subject to federal and state taxes, and an additional 10% federal penalty tax on the earnings (except in the case of death, disability, receipt of a scholarship, or acceptance to a U.S. military service academy). If funds disbursed from a UESP account are not used for qualified higher education expenses and a Utah state tax deduction was claimed in any prior tax year, the account owner must add the deducted amount to his or her taxable income for Utah state income tax purposes in the year of the non-qualified disbursement.

See www.uesp.org.

Vermont's Higher Education Investment Plan

Summary: In 2003, Governor Jim Douglas created a tax credit for Vermont taxpayers who contributed to the Vermont Higher Education Investment Plan. H. 141 provided a nonrefundable tax credit worth 5% of annual contributions up to $2,000

($100). In 2007, that tax credit increase to 10% on up to $2,500 in contributions (maximum $250 credit per beneficiary per year).

Eligibility: There are no income restrictions on eligibility for Vermont households.

Tax implications: Households that contribute up to $2,500 to the plan receive a tax credit of up to 10% of those contributions (maximum $250). There is no time limit on the number of years that families can receive the credit, and eligibility is maintained until the account is rolled over, closed or changes beneficiaries.

Maximums/minimums: Without direct deposit, there is a $25 initial and subsequent minimum investment. With direct deposit, households can open an account with a $10 initial deposit, and a $15 per-pay-period-commitment. Contributions can be made to the account, up to a lifetime maximum of $240,100.

Fees: There is no account maintenance fee, and accountholders are charged an account management fee of .80 percent of their account balance.

Investment options: Vermont's plan offers three investment choices – one each of an age-based, equity and capital preservation option.

Other details: Families that roll over their 529 funds from other states' investment plans are also eligible to receive this credit. See www.vheip.org/ourplan.

Appendix I: Summary of Asset Classes Relevant to CDA Policy and Excluded from TANF and/or Medicaid Asset Tests, by State

State	Summary of excluded assets relevant to CDA policy	
	TANF	Medicaid
Alabama		Asset test eliminated
Alaska		
Arizona	■ 529 and 530 educational savings accounts ■ IDAs for current recipients ■ Retirement accounts including 401(k)s and 457 plans	Asset test eliminated
Arkansas	■ Educational grants, loans and settlement payments that are intended and used for purposes which preclude their use for current living costs ■ IDAs ■ SEED accounts	■ Grants or loans to an undergraduate student for educational purposes
California	■ For current recipients, any amount for education or job training of a parent or child, a business start-up or purchase of a home ■ Retirement plans, including 401(k)s, 403(b)s and 457 plans ■ Education savings accounts, including 529 accounts and Coverdells	■ Pension funds or pension plans or KEOGHs
Colorado	■ Retirement savings accounts ■ IDAs ■ Education savings accounts, scholarships and educational stipends	Asset test eliminated
Connecticut	■ Assets set aside for future post-secondary education (if assets are not commingled with other assets and if the assets are under the child's name in an UGMA or similar account) ■ IRAs, 401(k)s and Keoghs ■ Student financial rewards[78]	Asset test eliminated
Delaware	■ Up to $5,000 in Education and Business Investment Accounts (EBIAs) ■ SEED accounts (treated as EBIAs) ■ Financial assistance received from school grants, scholarships, vocational rehabilitation payments, JTPA payments, educational loans and other loans	Asset test eliminated
District of Columbia	■ IRAs, Keogh accounts, 401(k), 403(b) and 457 accounts, and all other pension and retirement funds as long as the funds remain in the retirement plan ■ 529 college savings accounts	Asset test eliminated

State	Summary of excluded assets relevant to CDA policy	
	TANF	Medicaid
Florida	▪ IDAs ▪ Retirement accounts and pension plans ▪ Any grants, loans, gifts or scholarships received by the individual for educational expenses	▪ Pension and retirement accounts ▪ IDAs ▪ Educational grants, loans, gifts or scholarships
Georgia	▪ IDA funds up to $5,000 ▪ Retirement plans, including 401(k)s and 457 plans, but not IRAs	▪ Tax-deferred income in a fund available only upon termination of employment, hardship or retirement ▪ IDAs up to $5,000 for TANF recipients ▪ Pension plans and 401(k)s ▪ 529 college savings plans if applicant/recipient is beneficiary
Hawaii	Educational assistance benefits	▪ Bona fide loans, including but not limited to educational loans
Idaho		▪ Retirement funds, including IRAs, Keoghs and employment-related retirement accounts
Illinois	▪ Any savings and interest in which the money is accumulated from the earning of a child ▪ IDAs ▪ Educational grants or loans for undergraduate students	Asset test eliminated
Indiana	IDAs	▪ Education grants and loans for undergraduate students ▪ IDAs ▪ Funds set aside by the applicant/recipient for "independence and self-sufficiency," up to $20,000
Iowa	IDAs	▪ Resources necessary for self-employment ▪ Retirement funds if only available through termination or hardship
Kansas	▪ 529 college savings accounts ▪ Assets for Independence-funded IDAs	Asset test eliminated
Kentucky	▪ Funds in an IRA, state retirement, deferred compensation, etc., during period of unavailability ▪ Up to $5,000 in IDAs	
Louisiana	▪ Educational assistance ▪ Louisiana Student Tuition Assistance and Revenue Trust Saving Program (529 college savings) ▪ IDAs ▪ IRAs ▪ Retirement and pension plans	Asset test eliminated

State	Summary of excluded assets relevant to CDA policy	
	TANF	Medicaid
Maine	■ All educational grants, loans and scholarships ■ IDAs, Family Development Accounts or Separate Identifiable Accounts up to $10,000	■ Money in a savings account, CD, pension plan or IRA, up to $8,000 for an individual and $12,000 for a family of two or more ■ IDAs ■ Up to $10,000 in a Family Development Account/IDA ■ Educational loans and grants
Maryland	■ All assets are excluded except bank accounts, including savings and checking accounts and money on hand	Asset test eliminated
Massachusetts	■ Grants or scholarships to a student ■ IDAs	Asset test eliminated
Michigan	■ IDAs ■ 529 college savings plans	■ Funds in a separate account under a student's name and accrued solely from a student's earnings ■ 529 plans ■ IDAs
Minnesota	■ School loans, grants, or scholarships ■ IDAs	■ Retirement funds or pension funds that are individually owned or employer-based, including but not limited to IRAs, 401(k) plans, 403(b) plans and Keogh plans ■ Student financial aid sources
Mississippi	■ Retirement plans including pensions, IRAs and Keogh plans ■ Education Savings Plans identified as tax preferred accounts	Asset test eliminated
Missouri	IDAs	Asset test eliminated
Montana	■ Business Asset Development Accounts ■ IDAs ■ Employment-related retirement accounts that can only be accessed upon termination ■ Educational income, including Title IV, BIA, VA and work-study for post-secondary education	■ All educational income ■ Family Self-Sufficiency Program escrow accounts ■ IDAs
Nebraska	■ Unavailable job-related retirement account held by the employer ■ IDAs	■ U.S. savings bonds (excluded for initial six-month mandatory retention period) ■ Unavailable job-related retirement account that is held by the employer ■ IDAs
Nevada	■ IDAs ■ Tax-preferred education accounts ■ Retirement accounts, including 401(k)s, 457 plans, Federal Employee Thrift Savings plans, Section 501(e)(18) plans and Section 403(b) plans, but not including IRAs or Keogh plans	IDAs

State	Summary of excluded assets relevant to CDA policy	
	TANF	Medicaid
New Hampshire	■ IDAs ■ Contractual Keogh Plans	IDAs
New Jersey	IDAs	Asset test eliminated
New Mexico	IDAs	Asset test eliminated
New York	IDAs	A child's savings account under $500 in which the funds are accumulated from gifts from non-legally responsible relatives and/or from the child's own earnings
North Carolina	Varies by county	Retirement accounts, including 401(k)s and IRAs, unless withdrawn
North Dakota		Asset test eliminated
Ohio	Asset test eliminated	Asset test eliminated
Oklahoma	■ Education grants, including work study, scholarships and similar grants ■ Accounts, stocks, bonds or other resources held under the control of a third party if the funds are designated for educational purposes for a TANF child ■ IDAs up to $2,000	Asset test eliminated
Oregon	Individual education accounts for participants in JOBS PLUS program	■ Individual Education Accounts for participants in JOBS program ■ 529 college savings accounts or Coverdell accounts ■ Resources identified to meet costs, such as purchase of equipment for a trade or business, transportation, books and maintenance costs at school
Pennsylvania	■ SEED (Saving for Education, Entrepreneurship and Downpayment) account funds and interest ■ UGMA/UTMA accounts owned by a child in which funds may not be accessed until age 21 ■ Educational assistance in the form of loans, grants and scholarships ■ Family Savings Accounts (IDAs) ■ Educational Savings Accounts	Asset test eliminated
Rhode Island		Asset test eliminated
South Carolina	■ Family Self-Sufficiency escrow accounts and interest ■ IDAs up to $10,000	Retirement plans as long as the individual is employed

State	Summary of excluded assets relevant to CDA policy	
	TANF	Medicaid
South Dakota	▪ Educational loans and grants ▪ The first $1,000 of the cumulative balance of a dependent child's savings account, checking account, bonds or certificates of deposits, if the excluded funds are owned solely by the dependent child or jointly with the caretaker or another adult relative; the child is at least a half-time student; the child is employed at least part-time or has been employed at least part-time in the preceding 12 months; and a portion of the account was derived from the child's earnings	Educational loans and grants
Tennessee	▪ An entrepreneurial account placed with a microlending intermediary program with a balance of $5,000 or less ▪ IDAs of $5,000 or less in the 12 demonstration counties (however, the entire value of an IDA is counted as a resource in non-demonstration counties) ▪ The value of an IDA-WtW of $5,000 or less in all counties ▪ IRAs, 401(k)s and Keoghs of $20,000 or less ▪ Student grants and loans	IDAs up to $5,000
Texas	▪ TANF or AFI IDAs, except for deposits not made with earnings ▪ IRAs, 401(k)s, 403(b)s, Simplified Employee Pension and Keoghs ▪ Texas 529 college savings accounts and Coverdell accounts	▪ TANF or AFIA IDAs, except for deposits not made with earnings ▪ Retirement accounts, including IRA and 401(k)s ▪ Section 529 and 530 college savings accounts and Coverdell Education Tuition Savings Plans ▪ Educational assistance, including education loans
Utah	Reasonable assistance received for post-secondary education	▪ IDAs ▪ Resources set aside as part of a PASS plan ▪ Educational grants, scholarships, fellowships and gifts other than Title IV or BIA
Vermont	▪ Assets accumulated from subsidized or unsubsidized earnings of adults and children (for current recipients) ▪ Interest on excluded assets ▪ If a family reapplies for assistance after Reach Up terminates, assets accumulating during the time the family was not participating in Reach Up are excluded, provided that all other criteria for exclusion are met ▪ IDAs	Tax-deferred income in a fund available only upon termination of employment, hardship or retirement
Virginia	Asset test eliminated	Asset test eliminated
Washington	Savings accounts with combined balances of up to $3,000, over and above the current $1,000 resource limit (for current recipients)	▪ IDAs ▪ Educational benefits that are excluded as income

State	Summary of excluded assets relevant to CDA policy	
	TANF	Medicaid
West Virginia	■ Family Self-Sufficiency Escrow Accounts ■ IDAs (TANF and demonstration) ■ 529s, Coverdells and prepaid tuition plans ■ Funds held in CDs that cannot be withdrawn prior to maturity under any circumstances (the certificate is not an asset until the first month after it matures)	■ Family Self-Sufficiency Escrow Accounts ■ IDAs ■ Educational grants, scholarships, fellowships and gifts or portions of gifts set aside to pay tuition and other necessary educational expenses, for nine months following the month of receipt
Wisconsin	AFI, ORR and TANF-funded IDAs	Asset test eliminated
Wyoming	Savings account designated for higher education, established from earnings of a dependent child under age 18 who is a full-time high school student	Asset test eliminated

ENDNOTES

[1] Mason, L. R., Nam, Y., Clancy, M., Loke, V. & Kim, Y. (2009). SEED account monitoring research: Participants, savings, and accumulation. St. Louis, MO: Center for Social Development, Washington University in St. Louis.

[2] Elliott, W. (2009). 'At risk' children's college aspirations and expectations: The potential role of Children's Development Accounts (CDAs). Children and Youth Services Review; Elliott, W., Sherraden, M., Johnson, L., Johnson, S., & Peterson, S. (2007). College expectations among young children: The potential role of savings. Working Paper No. 07-06, St. Louis, MO: Center for Social Development, Washington University in St. Louis.

[3] For more information on SEED OK, visit the Center for Social Development's Web site at http://csd.wustl.edu/AssetBuilding/SEEDOK/Pages/default.aspx or the Oklahoma State Treasurer's Office at www.ok.gov/treasurer/SEED_for_Oklahoma_Kids/index.html.

[4] See CFED 's Asset Poverty in America, www.cfed.org/focus.m?parentid=2&siteid=2471&id=2565.

[5] Douglas-Hall, A. & Chau, M. (2007). Most Low-Income Parents are Employed. New York, NY: National Center for Children in Poverty. Retrieved from www.nccp.org/publications/pub_784.html.

[6] CFED staff analysis, derived from the College Board's 2008 Trends in College Pricing, retrieved from www.collegeboard.com/html/costs/pricing/3_1_net_prices.html.

[7] David Kirp, ed. Big Ideas for Children: Investing in our Nation's Future. (2008). Washington, DC: First Focus, p. 15.

[8] Ibid.

[9] The literature on, and evaluations of, the American Dream Demonstration are exhaustive. See www.cfed.org and http://gwbweb.wustl.edu/csd/ for extensive literature libraries.

[10] See CFED's Assets and Opportunity Scorecard, available at http://scorecard.cfed.org.

[11] See www.collegesavings.org.

[12] For a comprehensive list of pros and cons associated with Coverdale ESAs, see the 2006 Congressional Research Report by Pamela J. Jackson, An Overview of Tax Benefits for Higher Education Expenses, at http://assets.opencrs.com/rpts/RL32554_20060117.pdf.

[13] See www.buyandhold.com/bh/en/retirement/qa/education_ira.html. Retrieved August 31, 2009.

[14] For more information on ASPIRE, see www.ASPIREact.org.

[15] For more information on the Child Accounts Act of 2009, see http://lincoln.senate.gov/newsroom/2009-06-17-1.cfm.

[16] Roth IRAs for Kids: Young Saver's Accounts. (2006, May). Washington, DC: New America Foundation.

[17] For more details on the UK Child Trust Fund, see www.childtrustfund.gov.uk.

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[19] Presentation by David White, The Children's Mutual. New York, NY: Conference on Children and Youth Savings. Retrieved from http://s3.amazonaws.com/CDAconference/downloads/monday/salonF/DWhite.pdf.

[20] IPPR and the Aspen Institute.

[21] For more information on Singapore's Baby Bonus program, go to www.babybonus.gov.sg.

[22] Medishield is state-sponsored health insurance.

[23] RESPs in Canada differ depending on the provider; however, almost all require at least a minimal monthly contribution by the accountholder.

[24] Canada Child Benefits, Including Related Federal, Provincial and Territorial Programs: For the Period of July 2009 through June 2010. (2009). Canada Revenue Agency. Retrieved from www.cra-arc.gc.ca/E/pub/tg/t4114/t4114-09e.pdf.

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[28] See CESG/CLB Quick Facts, Retrieved from www.hrsdc.gc.ca/eng/learning/education_savings/publications_resources/promoter/tools/cesp_facts.shtml.

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[30] Ibid.

[31] Justice Brandeis, dissenting, New State Ice Co. v. Liebmann, 285 U.S. 262, at 311 (1932).

32 Donahue, J.D. (1997). Disunited States. New York, NY: Harper Collins.

33 Clancy, M., Orszag, P. & Sherraden, M. (2004). College Savings Plans: A Platform for Inclusive Saving Policy? St. Louis, MO: Center for Social Development. Retrieved from http://gwbweb.wustl.edu/csd/Publications/2004/Perspective-529andInclusion.pdf.

34 Clancy, M., Cramer, R. & Parrish, L. (2005, February). Section 529 Savings Plans, Access to Post-secondary Education, and Universal Asset Building. Washington, DC: New America Foundation. Retrieved from www.newamerica.net/files/archive/Doc_File_2246_2.pdf.

35 The matched 529 programs in Arkansas and Utah are currently operating on a pilot basis. In 2007, Texas passed legislation to create a match for the state's 529 prepaid tuition plan, but no funding has yet been appropriated.

36 For more on designing specific legislative language for CDAs, see "State-Level Children's Savings Policy: A Guide to Crafting Children's Savings Account Legislation" at www.cfed.org/imageManager/_documents/SEED_Legislative_Guide_Final.pdf.

37 These are drawn in part from a presentation at the2009 National Conference on Children and Youth Savings by Jennifer Brooks, available at http://s3.amazonaws.com/CDAconference/downloads/monday/salonG/JBrooks.pdf.

38 Incentivized state 529 policies have been the most successful vehicle to date in advancing state-level CDA legislation. To aid advocates in their pursuit of new or improved 529 policy, we have included a comprehensive list of strategies that can advance those state proposals in Appendix E.

39 Minimum initial and subsequent deposits are for residents of those states; both may be higher for out-of-state residents. Additionally, initial and subsequent deposit minimums may be lower for participants that choose contributions via direct deposit. In this table, we list the minimums should participants be unwilling or unable to use the direct deposit option.

40 Data gathered from each state's 529 plan Web site.

41 Ibid.

42 Additional detail on the Colorado's CollegeInvest Matching Grant Program can be retrieved from www.collegeinvest.org/default.aspx?pageID=85.

43 Additional detail on Kansas' K.I.D.S matching grant program can be retrieved from www.learningquestsavings.com/learningquest/kids.jsp.

44 Additional detail on the Louisiana Start college savings plan can be retrieved from www.startsaving.la.gov/savings/overview.jsp.

45 Additional detail on Maine's NextGen college savings plan can be retrieved from www.nextgenplan.com/. Additional detail on the Alfond College Challenge can be retrieved from www.500forbaby.org.

46 Additional detail on Michigan's matching grant can be retrieved from www.misaves.com/ourplan/matching.html.

47 Additional detail on Minnesota's matched college savings plan can be retrieved from www.mnsaves.org/ourplan/matching.html.

48 More detail on Rhode Island's CollegeBoundfund can be retrieved from www.riheaa.org/saving/fiveten/#bottom.

49 For more information on SEED OK, visit www.okseed.org/.

50 To learn more about the ACES, RESP, CESG and CLB, visit www.canlearn.ca/eng/saving/clb/index.shtml.

51 The expected family contribution (EFC) is the amount of money that a student and his/her family are expected to contribute to the student's education.

52 Clancy & Sherraden, 2003.

53 Ibid.

54 See the 2009 Investment Company Fact Book, retrieved from www.ici.org/pdf/2009_factbook.pdf.

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60 The 23 states with state-based EITCs are Colorado, Delaware (nonrefundable), Illinois, Indiana, Iowa (nonrefundable), Kansas, Maine (nonrefundable), Maryland, Massachusetts, Minnesota, New York, Oklahoma, Oregon, Rhode Island, Vermont, Virginia (nonrefundable) and Wisconsin.

61 See www.newsminer.com/news/2009/aug/07/pfd-amount-might-be-bigger-expected/.

62 The 2008 PFD, the largest to date, came as a result of an additional energy fund rebate.

63 It is important to note that the use of the Permanent Fund or its earnings for anything other than the established PFD program is a politically sensitive proposition. Numerous proposals to take advantage of the PFD have been presented throughout the years, most of which have been politically dead on arrival.

[64] Only Oregon and Texas have asset limits in their CHIP programs.

[65] Dean, S. (2002). The SNAP Program. 2002 Federal IDA Briefing Book: How IDAs Affect Eligibility for Federal Programs. Washington, DC: CFED and the Center on Budget and Policy Priorities.

[66] For example, H.D. 3172, the Freedom to Save Act of 2007, would have excluded asset tests from eligibility determinations for TANF, SSI or CHIP. In addition, it would have made many of the same asset limit changes to SNAP that were eventually made by the Food, Conservation and Energy Act of 2008 (commonly referred to as the 2008 Farm Bill). The 2008 Farm Bill exempted many important classes of assets in the SNAP program, including retirement accounts and education savings accounts, and indexed asset limits to inflation.

[67] Provides Medicaid to both children and their parents.

[68] Only Oregon and Texas have asset limits in their CHIP programs; however, the recent passage of HB 2016 in Oregon will eliminate CHIP asset tests effective October 1, 2009.

[69] Parrish, p. 9.

[70] Smith, V., Ellis E. & Chang, C. (2001, April). Eliminating the Medicaid Asset Test: A review of state experiences. Menlo Park, CA: The Henry J. Kaiser Family Foundation, p.14. Retrieved March 7, 2007 from www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=13750. New Mexico budget: Retrieved March 7, 2007 from http://legis.state.nm.us/lcs/lfc/lfcdocs/fy08%20lfc%20rec.pdf.

[71] Parrish, p. 9.

[72] The 2008 Farm Bill exempted many important classes of assets in the SNAP program, including retirement accounts and education savings accounts.

[73] The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 gave states the flexibility to eliminate or raise asset limits for TANF and Medicaid and to exclude certain types of assets from eligibility determination.

[74] The Food, Conservation and Energy Act of 2008 exempted many important classes of assets in the SNAP program, including retirement accounts and education savings accounts.

[75] For more information, visit www.cradletocollege.ky.gov.

[76] Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid. (2008). The College Board, Rethinking Student Aid Study Group. Retrieved August 3, 2009 from http://professionals.collegeboard.com/profdownload/rethinking-stu-aid-fulfilling-commitment-recommendations.pdf.

[77] The Farm Bill passed in 2008 exempted savings in 529 accounts from asset tests for the SNAP program.

[78] IDAs are not formally excluded, but are generally not counted.